







CANADA

**REPORT OF THE AUDITOR GENERAL**  
**TO THE HOUSE OF COMMONS**  
**for the**  
**FISCAL YEAR ENDED MARCH 31**  
**1961**







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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act.

2. In accordance with the requirement of section 70 of the Act, a report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1961. Section 70 reads:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
  - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
  - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
  - (d) an expenditure was not authorized or was not properly vouched or certified,
  - (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
  - (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

3. The Statement of Expenditure and Revenue for the year ended March 31, 1961 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Appendices 1 and 2, respectively. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, and the Summary of Revenue, by Main Classifications and Departments, as included in the Public Accounts, have also been examined and certified, and copies are attached as Appendices 3 and 4, respectively.

4. The report contains explanatory notes in paragraphs 29 to 45 regarding the major changes between the 1960-61 and 1959-60 expenditures. There is also submitted, as Appendix 5, a Summary of Expenditure by Standard Objects for the year ended March 31, 1961, with comparable figures for the preceding fiscal year.

5. It will be noted from the Summary of Expenditure by Standard Objects (Appendix 5) that the three largest items of expenditure continue to be civil salaries and wages, interest on the public debt, and subsidies and special payments to the provinces. Together they totalled \$2,118 million and represented over one-third of the net total expenditure for the year. Two of these items, namely, interest on the public debt and subsidies and special payments to the provinces, are the subject of detailed statements in the Public Accounts, and a summarized listing is given in this report (Appendix 6)

showing the numbers of employees authorized for the public service by departments, Crown corporations and other instrumentalities at the close of the fiscal year under review, in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

### *Scope of the Audit*

6. Our examinations of the departmental accounts for the year ended March 31, 1961 were made in conformity with section 67 of the Financial Administration Act, which reads:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

7. During the year the Audit Office has continued the comprehensive audit approach outlined in my report to the House of Commons last year. The examinations were conducted on a test basis in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of the internal control. They were made in accordance with generally accepted auditing standards and included a general review of the accounting procedures and system of internal control together with such tests of the accounting records and other supporting evidence as were considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those listed in paragraph 121, whose accounts were examined by other auditors.

8. The accounts relating to the receipts and disbursements of the Audit Office were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act.

9. During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown

corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

10. The Audit Office has addressed detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the past year. These reports outline the scope of the audit, give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. It is the intention to extend the issuance of detailed reports in due course to the heads of departments.

### *Internal Financial Control*

11. There are three basic requirements for an effective system of internal financial control in any organization, namely, accurate costs, effective periodic financial statements and appropriate provision for internal auditing. On the matter of accurate costs, I referred in my report last year to the fact that under existing governmental practice the appropriations for each department provide only for the cash estimated to be required during the fiscal year to discharge the direct costs of the department. They do not ordinarily provide for charges paid for its account by other departments. I expressed the hope that early consideration would be given to remedying the resultant anomalies and inconsistencies in order that the accounts relating to parliamentary appropriations may more accurately record the expenditures incurred for the various services.

This situation was discussed by the Public Accounts Committee early this year and consideration has been given to the problem by the Department of Finance with the result that the annual costs of certain major common services have been estimated and, according to my understanding, will be shown in memorandum form for the first time in the Main Estimates for 1962-63. I am hopeful that this beginning will in due course lead to the provision for all significant cost factors in the individual appropriations, and to the inclusion of the actual costs in the accounts of the responsible departments.

12. Effective periodic financial statements are essential to the study and control of costs. This point was stressed in my report last year because government departments and many of the Crown corporations and other agencies do not possess the profit incentive to control costs that exists in private enterprise, and must therefore develop their own efficiency yardsticks against which to measure their costs.

The Crown corporations keep their books along commercial lines and generally follow commercial practices in preparing their annual financial statements. Many of them also make good use of effective monthly or other periodic statements in the control of their costs and in the development of cost consciousness. In this way actual revenues



and expenditures are compared against either budget projections based upon known or anticipated income, or actual performance in a comparable prior period, or both. While determination of effective efficiency yardsticks for such comparisons may be difficult in some expenditure areas, I believe that wider adoption of this simple comparison technique by departments and other agencies would result in bringing expenditures under closer scrutiny, thereby bringing about a more effective administrative control of costs.

13. Internal auditing is a method of providing for independent examinations within an agency, and functions by reviewing, appraising and reporting to management on the effectiveness of other controls. Consequently, the external auditor is at all times concerned with the competence and scope of internal auditing work that he finds being carried out in the agency. While many of the larger departments and Crown corporations maintain their own internal audit staffs, a number have not taken steps along these lines even where the circumstances appear to justify it.

We are continuing to give this matter close attention, including the question of cost audits of expenditure incurred under contracts entered into by the Department of Defence Production. While we understand that efforts are being made to bring these audits up to date, the backlog has reached proportions which are of concern to the Department and to the suppliers involved.

### *The Public Accounts*

14. I stated in my report last year that as the Public Accounts constitutes in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail.

Attention was given to this problem by the Public Accounts Committee, which, in its Second Report, 1961, recommended, among other things, that Volume I of the Public Accounts be divided into two volumes in future, the first to contain mainly the summary report and financial statements and the second mainly details of expenditures and revenues.

### *Form of the Estimates*

15. In my report last year I recommended that consideration be given to the form of Estimates presentation with a view to providing more meaningful information, and I listed four examples of improvements which I felt illustrated the point. The form of the annual Estimates is important from the accounting point of view because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

A memorandum prepared by the staff of the Treasury Board and placed before the Public Accounts Committee on April 19, 1961 set forth several possible improvements

which might be made in future presentations of the Estimates. These were considered by the Public Accounts Committee and, in its Fourth Report, it indicated its approval of certain of the suggested improvements. The Committee recognized that there are other possible changes in the form of the Estimates, some of them of a fundamental nature, and recommended that these be considered early in the new year.

16. Expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the Estimates be presented to Parliament in the clearest and simplest manner possible. I do not believe the same case can be made for eliminating detailed information from the Estimates as from the Public Accounts. It seems to me essential to have what might be described as a maximum of information, well set out, having to do with the proposed spending. The making of more information available might well be of great assistance to Parliament: for example, the inclusion of the operating and capital budgets of Crown corporations and other agencies.

### *Crown Corporations*

17. In the course of its meetings during the past two years, the Public Accounts Committee devoted a significant portion of the time to enquiring into the operations of selected Crown corporations.

In its Third Report, 1960, the Committee referred to the early history of Crown corporations in Canada, mentioning, however, that the real growth of the Crown corporation idea was during the Second World War "when it was necessary for the Government to accomplish a lot in a hurry and upwards of forty corporations were in existence at one time". The report went on to state that:

"The time has come for a reappraisal of the position of Crown corporations in our national setup. Circumstances have changed; personnel has altered; and public policy is now more directly involved in the activities of these public corporations than was the case during the two World Wars."

The following comment was included in the Committee's Fifth Report, 1961:

"The Committee is impressed by the fact that while Crown corporations are similar to government departments in that the funds of both are public funds, the conduct of Crown corporations along commercial lines permits them a much freer hand in the management of their affairs, particularly in the spending of public funds in their charge. While recognizing that the high standards of the Canadian public service apply in equal measure to the officers and employees of Crown corporations, the fact remains that the efficiency of their managements depends in large measure on the competence of their boards of directors and the relationship of each with the responsible Minister."

together with the following comment:

"The Committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations."



18. In the Crown corporations section of this report, more detailed information is given regarding the Crown corporations audited by the Auditor General. The outline given for each corporation includes a brief description of the corporation, a summary of the Crown's equity, noting any change during the year, and a summary of the operations for the financial year in comparison with the preceding year, together with explanations of the more significant variations. Particulars are also given regarding other matters which it is felt may be of interest to the House of Commons.

19. In our examinations of the accounts of the corporations subject to audit by the Auditor General, we were, in general, impressed by the conscientious and efficient manner in which their operations were being conducted.

20. The Crown corporations represent a large investment of public funds. It will be noted that the amount shown in the Government's Statement of Assets and Liabilities as at March 31, 1961 (Appendix 2) for the item "loans to and investments in Crown corporations" was \$3,627,733,000. A listing of the balances making up this total is given in paragraph 93, in comparison with the corresponding balances at the close of the two preceding fiscal years.

The following summary compares the number of Crown corporations and other similar instrumentalities in which direct investment was made and recorded in the annual statements of assets and liabilities at the close of the fiscal years 1939-40, 1949-50, 1959-60 and at the close of the year under review:

<u>Year ended March 31</u>	<u>No. of corporations*</u>	<u>Investment</u>
1940	10 (3)	\$ 183,111,000
1950	22 (6)	1,171,789,000
1960	30 (10)	3,446,662,000
1961	30 (10)	3,627,733,000

\* Of the numbers of Crown corporations shown, those in parentheses involved no direct investment as they were financed out of parliamentary appropriations or were subsidiaries of corporations in which the direct investments were made.

In considering the above table, it will be noted from the listing given in paragraph 93 that the March 31, 1961 figure of \$3,627,733,000 includes \$1,510,711,000 for advances to the Central Mortgage and Housing Corporation and \$1,092,590,000 for advances to the Canadian National Railways.

The income from loans to and investments in the Crown corporations during the past three fiscal years is included, where significant, in the table given in paragraph 51.

21. On the operations side, a large segment of public business is undertaken by means of Crown corporations who employ the services of a significant portion of the total of public service employees. The summary of employees authorized for the public service, referred to in paragraph 5 and given as Appendix 6 to this report, indicates that of the total of 330,730 employees in March 1961, 135,421 were employed by the Crown corporations or similar instrumentalities.

22. The Crown corporations are subject to broad directions contained in the Financial Administration Act and also, in some cases, to provisions of the special Acts by which they were established, as well as being generally subject to direction by the responsible Ministers in matters involving important policy decisions. The Financial Administration Act requires that they submit capital budgets for approval by the Governor in Council on the recommendation of the responsible Minister and the Minister of Finance, and that these be tabled in Parliament. There is, however, no requirement similarly to table annual operating budgets. Annual reports, including financial statements and related audit reports, are required to be tabled in the House of Commons by the responsible Ministers.

The Crown corporations are free to conduct the operations for which they are responsible in accordance with commercial corporate practice, while at the same time following practices and procedures designed to safeguard fully the public moneys they are handling. They maintain their accounting systems on the accrual basis and their financial statements reflect all the costs incurred. They are not subject to the Civil Service Commission or to Executive regulations applicable to government departments—although in some cases these regulations are made applicable to certain designated corporations. Generally speaking, day-to-day operations are carried on under the exclusive direction of managements operating along corporate organizational lines and reporting to executive boards appointed by the Governor in Council, or, in some cases, by the responsible Ministers.

23. The Auditor General is the auditor of 23 of the 30 Crown corporations and similar public instrumentalities listed in paragraphs 120 and 121 of this report, having been so designated under the special or general Acts under which they were established or incorporated. The remaining seven are audited by private auditors. Subsection (1) of section 77 of the Financial Administration Act provides that where no statutory provision is made for the appointment of an auditor to audit the accounts and financial transactions of a Crown corporation, the auditor is to be designated by the Governor in Council. Subsection (2) of the section provides that, in the circumstances mentioned, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a corporation.

## Summary of Expenditure and Revenue

24. The Statement of Expenditure and Revenue for the year ended March 31, 1961, as published in the Public Accounts, is reproduced as Appendix 1 to this report. Expenditure for the year amounted to \$5,958 million and revenue to \$5,618 million, resulting in a deficit of \$340 million. This compares with deficits of \$413 million in the preceding fiscal year and \$609 million in 1958-59.

### *Expenditure*

25. The Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1961, as published in the Public Accounts, is

reproduced as Appendix 3 to this report. The statement shows appropriations of \$6,212 million, expenditure of \$5,958 million, and unexpended balances of \$254 million.

26. Of the total appropriations for the year, \$2,440 million was provided by continuing statutory authorities, \$3,757 million was granted under Appropriation Acts (Nos. 2, 4, 5, 6 and 7 of 1960, and No. 2 of 1961) and \$15 million remained available from continuing 1959-60 appropriations (Votes 615 and 648).

Of the total expenditure during the year, \$2,440 million was spent under continuing statutory authorities and \$3,518 million was disbursed under the authority of annual appropriations.

Of the unexpended balances of \$254 million, \$225 million lapsed at the end of the year in compliance with section 35 of the Financial Administration Act and a balance of \$29,137,000 in Vote 592 remained available for expenditure in 1961-62 because of the special wording in the appropriation:

"Payments, in accordance with terms and conditions approved by the Governor in Council, to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1960-61 and 1961-62 fiscal years of amounts not exceeding one-half of the cost of labour incurred in the period from the 15th day of October, 1960, to such day in the fiscal year 1961-62 as may be determined by the Governor in Council—\$30,000,000".

27. The lapsed balances of \$225 million represented 6% of the appropriations under Appropriation Acts. This compares with lapsed balances representing 9% of such appropriations at the close of the preceding year. In the cases of the following departments, the lapsed balances represented 10% or more of the appropriations under Appropriation Acts:

Department	Voted appropriations	Lapsed balances	
		Amount	%
Agriculture .....	\$235,006,000	\$28,828,000	12
Defence Production .....	25,021,000	4,602,000	18
Finance .....	73,217,000	10,935,000	15
Mines and Technical Surveys .....	52,319,000	5,647,000	11
National Gallery of Canada .....	1,024,000	103,000	10
Privy Council .....	2,055,000	232,000	11

28. The following table summarizes the expenditure, by departments, for the fiscal year 1960-61, in comparison with the corresponding amounts for the two previous years:

Department	1958-59	1959-60	1960-61
Agriculture .....	\$ 208,268,000	\$ 227,420,000	\$ 264,915,000
Canadian Broadcasting Corporation .....	62,018,000	63,946,000	66,766,000
Citizenship and Immigration .....	52,844,000	51,917,000	61,049,000
External Affairs .....	75,820,000	97,221,000	103,023,000
Finance .....	1,228,205,000	1,420,155,000	1,460,027,000
Labour .....	86,756,000	102,885,000	121,336,000
Mines and Technical Surveys .....	43,789,000	54,432,000	59,120,000
National Defence .....	1,424,741,000	1,514,904,000	1,517,531,000
National Health and Welfare .....	872,917,000	818,371,000	887,147,000
National Revenue .....	68,788,000	68,696,000	73,261,000
Northern Affairs and National Resources ....	58,386,000	74,346,000	74,296,000



<u>Department</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Post Office .....	157,803,000	165,792,000	178,372,000
Public Works .....	226,061,000	217,876,000	200,892,000
Royal Canadian Mounted Police .....	51,735,000	52,444,000	56,023,000
Trade and Commerce .....	19,951,000	17,961,000	21,764,000
Transport .....	288,838,000	296,447,000	336,447,000
Veterans Affairs .....	288,784,000	288,305,000	292,298,000
Other departments .....	148,336,000	166,743,000	183,834,000
	<u>\$5,364,040,000</u>	<u>\$5,702,861,000</u>	<u>\$5,958,101,000</u>

The amounts shown for the fiscal years 1958-59 and 1959-60 in the above comparative table have been adjusted to give effect to the changes which took place during the year under review, as a result of transfers of responsibility under the authority of the Public Service Rearrangement and Transfer of Duties Act. Expenditure of the Board of Grain Commissioners, assistance payments for storage costs of grain, and outlays under the Prairie Grain Advance Payments Act, previously made by the Department of Trade and Commerce, became the responsibility of the Department of Agriculture. Expenditure formerly incurred by the Economic and Technical Assistance Branch of the Department of Trade and Commerce was made instead by the Department of External Affairs. The Department of Forestry, which was established by the Department of Forestry Act assented to on August 1, 1960, assumed responsibility for expenditures previously incurred by certain divisions of the departments of Agriculture and Northern Affairs and National Resources.

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations in departmental expenditure totals in 1960-61 compared with the preceding year.

29. *Agriculture.* The increase of \$37 million or 16% in expenditure by this Department in comparison with the preceding year was more than accounted for by an outlay of \$41 million for acreage payments to Western grain producers, for which there was no comparable charge in 1959-60. Other significant variations in the year were an increase of \$6 million (14%) for assistance towards grain storage costs, a decrease of \$5 million (19%) in freight assistance on Western feed grains and a decrease of \$4 million (7%) in the amount appropriated towards the net operating loss of the Agricultural Stabilization Board.

30. *Canadian Broadcasting Corporation.* Although the charges to the appropriations providing for payments to this corporation, in respect of its operating and capital requirements, increased by less than \$3 million during the year under review, as indicated by the above table, the actual increase in net payments was approximately \$6 million, or 10%. This was because the payments recorded for 1959-60 were without adjustment for a refund of \$3 million which was received too late for credit to the appropriations of that year (and which was therefore credited to Revenue in 1960-61 as "refund of previous years' expenditures").

31. *Citizenship and Immigration.* The \$6 million or 11% increase in expenditure by this Department resulted mainly from increases of \$3 million (11%) in outlays for Indian education and \$1 million (16%) in Indian welfare expenditure.

32. *External Affairs.* The net increase of \$6 million or 6% in the expenditure of this Department approximates the \$6 million purchase and transfer of wheat flour to assist in the establishment of strategic stockpiles of food supplies in member states of the North Atlantic Treaty Organization. Although there was a \$7 million (53%) decrease in assistance to other countries, there were offsetting increases of \$1 million (15%) in the costs of representation abroad, \$2 million in contributions towards the United Nations operations in the Congo, and \$3 million in other outlays to international organizations.

33. *Finance.* Expenditure by this Department increased by \$40 million or 3% over the preceding year. Payments to the provinces under the Federal-Provincial Tax-Sharing Arrangements Act were \$19 million (4%) higher than in 1959-60, while interest on the public debt rose by \$21 million (3%).

34. *Labour.* The increase of \$18 million or 18% in expenditure by this Department was mainly accounted for by increases of \$9 million (20%) in the Government's contribution to the Unemployment Insurance Fund, and of \$6 million (18%) in administrative and general expenses of the Unemployment Insurance Commission, while payments in respect of the municipal winter works program increased by \$2 million (35%) over the preceding year.

35. *Mines and Technical Surveys.* The expenditure of this Department increased by \$5 million or 9% over the preceding year. Increases of \$4 million (17%) in administration and general expenditure and of \$2 million (10%) in expenditure of the Dominion Coal Board were partially offset by a decrease of \$1 million (8%) in payments made under the Emergency Gold Mining Assistance Act.

36. *National Defence.* Expenditure of \$1,517 million in 1960-61 was only \$3 million more than in the preceding year; however, there were some significant variations within the overall totals. Expenditure for the Air Force was \$23 million (3%) higher than in the preceding year but there were decreases of \$11 million (22%) in the Government's contribution to the Canadian Forces Superannuation Account and \$10 million (4%) in expenditure for the Navy.

37. *National Health and Welfare.* The increase of \$69 million or 8% in expenditure by this Department in 1960-61 compared with the preceding year was largely accounted for by increases of \$39 million (26%) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$15 million (3%) in family allowance payments and \$11 million (28%) in unemployment assistance.

38. *National Revenue.* Expenditure by this Department was up by \$4,600,000 or 7% in comparison with 1959-60, with \$2,100,000 (6%) of the increase being in expenditures of the Customs and Excise Division and \$2,500,000 (8%) in those of the Taxation Division.

39. *Northern Affairs and National Resources.* This Department's expenditure was just under what it was in the preceding year. A \$3 million (33%) increase in contributions to the provinces, to assist in the development of roads leading to resources, was more than offset by reductions in the expenditures of the National Parks and Northern Administration Branches of the Department.

40. *Post Office.* The expenditure of this Department increased by \$13 million or 8% in the year under review, due to general increases in the cost of operations during the year.

41. *Public Works.* The decrease of \$17 million or 8% in expenditure by this Department compared with the preceding year was more than accounted for by decreases of \$14 million (31%) in the cost of construction or acquisition of public buildings and \$7 million (11%) in outlays towards the construction of the Trans-Canada Highway.

42. *Royal Canadian Mounted Police.* The expenditure by this Department increased by \$4 million (7%) during 1960-61, largely accounted for by an increase of \$3 million (10%) in the operation and maintenance of the Land, Air and Training Divisions.

43. *Trade and Commerce.* An increase of approximately \$2 million (24%) in expenditure by the Dominion Bureau of Statistics accounted for half of the \$4 million or 21% increase in the expenditure of this Department during the year under review.

44. *Transport.* The expenditure of this Department increased by \$40 million or 13% over the preceding year. Nearly \$24 million of this amount was on account of the larger net operating deficit of the Canadian National Railways for the 1960 calendar year. The payment with respect to the Trans-Canada Air Lines deficit was \$3 million, whereas the company had a small surplus in the preceding year. Payments under the Freight Rates Reduction Act increased by \$13 million (160%) and expanded services for aviation resulted in an increase of \$10 million (8%) in the cost of operating the Department's Air Services. These increases were partly offset by a reduction of \$11 million (68%) in expenditure for construction or acquisition of marine service steamers.

45. *Veterans Affairs.* The expenditure of this Department varied little from the preceding year with the overall increase of \$4 million or 1% being due to relatively minor increases in the net cost of treatment and in outlays for welfare services, war veterans' allowances and other benefits, and pensions for disability and death.



*Revenue*

46. The Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1961, as included in the Public Accounts, is given as Appendix 4 to this report. The summary shows tax revenues as amounting to \$5,016 million and total revenue of \$5,618 million.

47. The following table gives a summary of the revenue, by principal sources, for the past three years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
<b>Tax revenues:</b>			
Personal income tax .....	\$1,353,500,000	\$1,566,644,000	\$1,711,160,000
Corporation income tax .....	1,020,550,000	1,142,880,000	1,276,629,000
Income tax on dividends, interest, etc., going abroad .....	61,213,000	73,353,000	88,174,000
Sales tax .....	694,491,000	732,658,000	720,617,000
Other excise taxes .....	240,624,000	286,568,000	290,658,000
Customs duties .....	486,509,000	525,722,000	498,698,000
Excise duties .....	316,744,000	335,207,000	344,945,000
Estate tax .....	72,535,000	88,431,000	84,879,000
Other tax revenues .....	1,213,000	877,000	17,000
	<u>4,247,379,000</u>	<u>4,752,340,000</u>	<u>5,016,777,000</u>
<b>Non-tax revenues:</b>			
Return on investments .....	221,204,000	239,654,000	283,769,000
Net postal revenue .....	157,541,000	167,562,000	173,594,000
Other non-tax revenues .....	128,599,000	130,195,000	144,540,000
	<u>507,344,000</u>	<u>537,411,000</u>	<u>601,903,000</u>
	<u>\$4,754,723,000</u>	<u>\$5,289,751,000</u>	<u>\$5,617,680,000</u>

48. The amounts shown for income taxes and sales tax do not include collections of tax levied under the Old Age Security Act on personal and corporation incomes and on sales, which collections were credited to the Old Age Security Fund, the total so credited being \$603,131,000 during the year under review. A summary of the transactions in the Old Age Security Fund for the past three fiscal years is given in paragraph 95.

49. The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1961, in comparison with the corresponding amounts for the two previous years:

<u>Excise Tax</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Cigarettes .....	\$ 127,148,000	\$ 163,608,000	\$ 172,197,000
Automobiles .....	59,308,000	64,281,000	59,627,000
Manufactured tobacco .....	18,175,000	19,292,000	18,697,000
Television sets and tubes .....	10,241,000	9,387,000	8,466,000
Toilet articles and preparations .....	6,824,000	7,651,000	8,406,000
Phonographs, radios and tubes .....	7,557,000	8,372,000	7,460,000
Jewellery, clocks, watches, chinaware, etc. ....	5,599,000	5,609,000	5,943,000
Wines .....	3,140,000	3,027,000	3,224,000
Cigars .....	2,673,000	2,603,000	2,755,000
Sundry excise taxes .....	2,530,000	3,099,000	4,212,000
Refunds and drawbacks .....	—2,571,000	—361,000	—329,000
	<u>\$ 240,624,000</u>	<u>\$ 286,568,000</u>	<u>\$ 290,658,000</u>

50. A listing of the excise duties collected during the year ended March 31, 1961, with comparable figures for the two previous years, is given in the following table:

<u>Excise Duty</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Cigarettes .....	\$ 132,547,000	\$ 136,931,000	\$ 140,365,000
Spirits .....	96,551,000	102,354,000	108,502,000
Beer .....	83,058,000	90,704,000	90,971,000
Other excise duties .....	8,688,000	9,279,000	9,328,000
Refunds and drawbacks .....	-4,100,000	-4,061,000	-4,221,000
	<u>\$ 316,744,000</u>	<u>\$ 335,207,000</u>	<u>\$ 344,945,000</u>

51. The following is a summary of the return on investments for 1960-61 in comparison with the corresponding amounts for the two previous fiscal years:

<u>Investment</u>	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Bank of Canada .....	\$ 88,632,000	\$ 74,012,000	\$ 90,175,000
Central Mortgage and Housing Corporation ....	28,961,000	43,804,000	59,576,000
Exchange Fund Account .....	18,626,000	25,513,000	32,536,000
Loans to National Governments .....	31,947,000	31,104,000	30,280,000
The St. Lawrence Seaway Authority .....		5,000,000	13,149,000
Deposits with chartered banks .....	4,941,000	10,493,000	6,645,000
Veterans' Land Act loans .....	5,007,000	4,952,000	5,212,000
Securities Investment Account .....	2,613,000	3,546,000	5,063,000
Canadian National Railways .....	11,451,000	11,073,000	4,982,000
Eldorado Mining and Refining Limited .....	3,525,000	4,230,000	4,935,000
Northern Ontario Pipe Line Crown Corporation	3,078,000	4,074,000	4,299,000
Farm Credit Corporation .....	1,956,000	2,815,000	4,127,000
National Harbours Board .....	3,187,000	3,321,000	3,884,000
Polymer Corporation Limited .....	4,000,000	3,000,000	3,000,000
Other loans and investments .....	13,280,000	12,717,000	15,906,000
	<u>\$ 221,204,000</u>	<u>\$ 239,654,000</u>	<u>\$ 283,769,000</u>

The amounts shown as earned on the investment in the Bank of Canada represent the annual profits of the Bank, which were surrendered to the Receiver General under section 28 of the Bank of Canada Act, c.13, R.S. The amount shown for the 1960-61 return on the Central Mortgage and Housing Corporation investment comprised \$54,344,000 (\$39,456,000 in 1959-60) for interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, c.46, R.S., together with \$5,232,000 (\$4,348,000 in 1959-60) for the Corporation's profit for its financial year ended December 31st, which was transferred to the Receiver General under section 30 of the Act. The \$13,149,000 shown for the return on the investment in The St. Lawrence Seaway Authority in 1960-61 represents the interest which had accrued during the year on loans made to the Authority (see paragraph 63). The reduction from \$11,073,000 in 1959-60 to \$4,982,000 in 1960-61 in the return on the investment in the Canadian National Railways was due to a decrease during the year of \$115,000,000 in outstanding advances to the company, when repayments were received from the company following an issue of its securities to the public.

52. The net postal revenue amounts listed in the table in paragraph 47 represent gross postal revenue less disbursements for the remuneration of postmasters and staffs at certain classes of smaller post offices, and for miscellaneous expenditures, during each of the past three fiscal years, as follows:

	1958-59	1959-60	1960-61
Gross postal revenue .....	\$ 183,291,000	\$ 193,593,000	\$ 201,952,000
Disbursements—			
Remuneration of postmasters and staffs ....	21,781,000	22,053,000	24,050,000
Miscellaneous expenditures .....	3,969,000	3,978,000	4,308,000
	<u>25,750,000</u>	<u>26,031,000</u>	<u>28,358,000</u>
Net postal revenue .....	<u>\$ 157,541,000</u>	<u>\$ 167,562,000</u>	<u>\$ 173,594,000</u>

In paragraph 155 of this report a summary is given of the Post Office transactions for the fiscal year 1960-61, in comparison with the preceding year, together with comments on the recorded excess of expenditure over revenue.

53. An analysis of the amounts shown for "other non-tax revenues" for the year ended March 31, 1961, with comparable figures for the two previous fiscal years, is given in the following table:

	1958-59	1959-60	1960-61
Privileges, licenses and permits .....	\$ 27,883,000	\$ 24,970,000	\$ 27,206,000
Proceeds from sales .....	23,521,000	21,892,000	23,981,000
Services and service fees .....	27,195,000	31,299,000	35,672,000
Refunds of previous years' expenditure .....	37,663,000	40,630,000	40,544,000
Miscellaneous .....	12,337,000	11,404,000	17,137,000
	<u>\$ 128,599,000</u>	<u>\$ 130,195,000</u>	<u>\$ 144,540,000</u>

### Comments on Expenditure and Revenue Transactions

54. Reference has already been made to the statutory responsibilities of the Auditor General under section 70 of the Financial Administration Act, which requires him to call attention to specific classes of transactions observed during his examinations and to any other matter that he "considers should be brought to the notice of the House of Commons".

Pursuant to this direction, I consider that the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review should be brought to the attention of the House in this report.

55. *Questionable charges to Vote 576.* This appropriation reads:

"Payment of an amount, as a higher return for wheat used for human consumption in Canada, to Western grain producers to be distributed on the following basis, namely:

\$1.00 per cultivated acre up to a maximum of 200 acres per farm in accordance with regulations of the Governor in Council—\$42,000,000".



It was noted in the audit that payments of \$1 per cultivated acre up to a maximum of 200 acres per farm were made, under regulations approved by the Governor in Council, to Western grain producers irrespective of whether wheat, oats or barley had been sown, or the fields left in summer fallow.

Although the wording of the appropriation provides only for payments to grain producers on the basis of cultivated acreage, the Treasury Board ruled that the related administrative expenses, amounting to \$103,000, that had been incurred by the Canadian Wheat Board during the year were a proper charge to the appropriation.

56. *Prairie Farm Emergency Fund deficit.* A deficit of \$9,200,000 resulted from the operations of this Fund under the Prairie Farm Assistance Act, c.213, R.S., during the year under review, in comparison with the deficit of \$12,529,000 for the preceding fiscal year. As in previous years, the 1960-61 deficit was charged to Expenditure without a specific parliamentary appropriation having been provided for the purpose.

In its Fifth Report, 1961 (paragraph 27), the Public Accounts Committee referred to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, and recommended:

"that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

It is understood that the Department of Agriculture has established a committee to study various matters relating to the operations of the Fund, including consideration of the recommendation quoted above.

57. *Irregular credit to Indian band revenue account.* On the authority of a resolution of its council dated September 21, 1954, an Indian band agreed to purchase for \$10,000 certain public lands under the control and administration of the Department of Citizenship and Immigration. However, initially through difficulties in determining boundaries and later through inadvertence, the lands were not legally set apart on the authority of the Governor in Council as an addition to the band's reserve until November 10, 1960, and the purchase price of \$10,000 was not transferred from the band's capital account to the credit of Revenue until November 21, 1960. In the six year interval between the Indian band's agreement to purchase the lands and the consummation of the sale, revenue from the leasing of a portion of the lands, amounting to some \$9,000, was credited to the band's revenue account. This account was also credited with approximately \$1,000 of interest on the increased annual balances which resulted from the crediting of the rental moneys.

In the Audit Office view, the rentals collected before the sale was consummated are Crown revenues and were irregularly credited to the Indian band's revenue account, as were also the related interest amounts.

58. *Delay in recipient countries' certification for counterpart funds.* In last year's report reference was made to amounts that had been spent out of funds appropriated

by Parliament for the Colombo Plan, for the purchase of commodities supplied in accordance with agreements with the recipient countries that "counterpart funds" would be set aside by them for subsequent use in connection with agreed economic development projects. It was noted that as at March 31, 1960 statements of counterpart funds, certified by the Auditors General of the recipient countries, as required by the agreements, had not been received in respect of commodities supplied to a total value of \$85,604,000.

In its Fifth Report, 1961 (paragraph 29) the Public Accounts Committee recommended:

"that efforts be made by the Director General, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course."

Additional expenditures totalling \$33,800,000 requiring the setting aside of counterpart funds were made during the year under review and, as audit certificates to the extent of only \$1,000,000 were received during the year, the expenditures requiring certification as to counterpart funds totalled \$118,404,000 at March 31, 1961.

An examination of records in the External Aid Office indicates that since my last report continued efforts have been made by the Director General, External Aid, to secure certification of counterpart funds.

59. *Government contributions not made to superannuation accounts.* Subsection (2) of section 32 of the Public Service Superannuation Act, c. 47, 1952-53, reads:

"There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

Similar statutory provisions are contained in the Canadian Forces Superannuation Act, c.21, 1959, and the Royal Canadian Mounted Police Superannuation Act, c.34, 1959.

No special credits were given to any of the superannuation accounts, and no offsetting charges were made to Expenditure, to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the public service, armed forces and the Royal Canadian Mounted Police during the year ended March 31, 1961.

It is understood that, so far as the Public Service Superannuation Account was concerned, the Department of Finance took the view that, since the salary increases for the various classes of the Civil Service had been granted at intervals over a period of several months, they did not represent an "increase of general application". The increases to members of the Armed Forces and the Royal Canadian Mounted Police were granted to all classes at the one time.



In this connection, a note appended to the Statement of Assets and Liabilities included in the Public Accounts reads as follows:

"The liability of \$3,955,509,445 in respect of annuity, insurance and pension accounts does not include any provision for additional liabilities resulting from salary and pay increases during the fiscal year; the amounts involved are estimated by the Department of Insurance at \$80,700,000 for the Public Service Superannuation Account, \$79,050,000 for the Canadian Forces Superannuation Account, and \$1,760,000 for the Royal Canadian Mounted Police Superannuation Account."

60. *Regularization of employment beyond retirement age.* In its Fifth Report, 1961 (paragraph 68), the Public Accounts Committee noted that authority had been provided by Parliament by means of a dollar vote (Vote 686, under the Department of Finance) in Supplementary Estimates (5), 1960-61, to regularize employment during periods when employees had been employed beyond retirement age without due authority. The text of Vote 686 reads:

"To provide that where the Governor in Council is of opinion that a person, without fraud, continued to render services to the Crown after attaining the age at which he automatically ceased to be employed pursuant to regulations made under the authority of paragraph (ad) of subsection (1) of section 30 of the Public Service Superannuation Act, such person shall be deemed, notwithstanding anything in those regulations, to have been employed in the Public Service during such period after attaining that age as the Governor in Council determines."

Attention is drawn to the words "without fraud" in the text quoted. Up to the end of September 1961, the Governor in Council acted under the authority provided to approve employment in 22 cases where services had been rendered beyond retirement age. In four of these, the employees concerned had admitted misrepresentation of age in order to obtain, or continue in, employment, and details of one of these cases are now given by way of illustration.

An employee understated her age by 13 years in 1945 when she entered the Civil Service. In 1958, when proof of age was required in connection with an election under the Public Service Superannuation Act to pay for past service, the employee claimed that she could not comply because parish records had been destroyed by fire. However, when she was advised that her election to pay for past service could not be made final until proof of her age was on file, a baptismal certificate was produced in November 1959 which indicated that she had reached retirement age in September 1955. The employee was not retired until December 1960, at which time the annuity to which she was entitled (calculated as of September 28, 1955) was \$683 per annum. An Order in Council of February 16, 1961 authorized suspension of collection of \$25,156, representing the salary paid during the period of illegal employment from September 28, 1955 to December 14, 1960. On July 6, 1961 the Governor in Council, under the authority provided by Vote 686, quoted above, legalized the service with the result that the amount of the employee's annuity was increased from \$683 to \$1,482 per annum. In the mean-

time, in January 1961, the annuitant had been re-appointed to her former department, at age 70, under certificate of the Civil Service Commission, and a Treasury Board Minute of September 8, 1961 approved continuation of employment to September 27, 1962. It is estimated that this service, when completed, will further increase the amount of her earned annuity to \$1,703 per annum.

It is difficult to understand how "fraud", in the context of Vote 686, quoted above, can be interpreted otherwise than as including deliberate misrepresentation of age and withholding of documentary proof of age.

61. *Errors in Public Service Superannuation Account contribution and pension calculations.* Responsibility for the pre-audit of superannuation payments was transferred from the Comptroller of the Treasury to the Superannuation Branch several years ago, the relevant administrative directive reading as follows:

"As of the date of issuance of this directive the Superannuation Branch shall be solely responsible for establishing the extent and cost of elective pensionable service. Once the Superannuation Branch has determined the extent and cost of elective service the case for administrative purposes will be closed. Furthermore where the Superannuation Branch has already determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, that case for administrative purposes is now closed. Any contributor or his employing agency may reopen a case of elective service; however, once this is done the relevant laws must be applied."

A result of this decision has been a weakening of internal control due to the lack of an effective check on the individual pension calculations. In our test examinations each year since, numerous errors have been found involving both over-payments and under-payments of pension on a continuing basis and incorrect charges for contributory service. Many of these errors could have been avoided had there been a review or internal audit of the contributors' files prior to authorization of payment of benefits.

We drew the attention of the Department of Finance to this situation in 1959 and again in 1960, pointing out that because of the high incidence of errors revealed in our test audit, it must be assumed that many more go undetected. As a result of recent meetings held with departmental officers, we understand that consideration will be given to this matter.

62. *Interest charges on loans to the National Capital Commission.* Up to March 31, 1961 loans totalling \$25,300,000 were made, on the authority of annual parliamentary appropriations under the heading "Loans, Investments and Advances" (e.g., Vote 489, 1960-61) to the National Capital Commission and its predecessor, the Federal District Commission, for the purpose of acquiring property in the National Capital Region. Repayment is to be made when the property is used for the purposes of the Commission or disposed of and, after repayments of \$57,648 in 1959-60 and \$10,752 in 1960-61, representing the proceeds from property sales, the loans outstanding at March 31, 1961 were \$25,231,600. The loans are secured by promissory notes and bear interest payable semi-annually at rates of from 4% to 5½% per annum.



In paragraph 131 of this report it is explained that the objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region", and it is also indicated that the Commission's activities are financed to a limited extent only by revenues from rentals, etc. It therefore seems unrealistic to put the Commission in the position where it is required to pay interest on loans, when it must be provided with funds through parliamentary appropriations to meet the interest payments.

Interest payments, credited to Revenue as return on investments (Department of Finance), amounted to \$1,097,000 in the year ended March 31, 1961, and of this amount \$940,000 was provided by a parliamentary appropriation for payment of interest to the Receiver General (Votes 315, 731).

The following is a summary of property acquisitions to March 31, 1961, financed by means of loans provided to the Commission:

Greenbelt .....	\$ 18,932,000
Queensway .....	2,441,000
Ottawa River Parkway .....	829,000
Eastern Parkway .....	727,000
Other properties .....	1,618,000
	<hr/>
	\$ 24,547,000
	<hr/>

The properties in the Greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay the interest on the sums paid to acquire them and, by Executive direction, they may not be sold. In the year in which the Queensway is turned over to the City of Ottawa, a parliamentary appropriation will be required to provide funds with which to pay off the amount of loans made in respect of it.

From the practical point of view, expenditures made on properties for the Greenbelt, the Queensway and other projects are expenditures of the Crown rather than income-producing investments. For this reason, it would seem that Parliament should be asked to provide funds by means of appropriations in the years in which the properties are to be acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

63. *Interest on loans to The St. Lawrence Seaway Authority.* Earnings of The St. Lawrence Seaway Authority for the year ended December 31, 1960 were not sufficient to meet fully the Authority's obligation to pay to the Minister of Finance the \$13,149,000 of interest for the year on outstanding loans.

On March 30, 1961 the Minister of Finance made a loan of \$9,500,000 to the Authority to cover the unpaid balance of the interest for 1960. This transaction was recorded in the accounts of the Department of Finance as a charge to the account recording the loans made to the Authority and as a credit to Revenue (return on investments).

As this interest amount of \$9,500,000 had not been earned by the Authority, it is the Audit Office view that it was improper for the Department of Finance to increase

governmental revenue for the year in the above manner and at the same time reduce the future borrowing powers of the Authority under section 13 of the St. Lawrence Seaway Authority Act, c. 242, R.S., as amended.

64. *Deletion of debts due to the Crown.* Section 23 of the Financial Administration Act provides authority to the Governor in Council, on the recommendation of the Treasury Board, if considered in the public interest, to delete from the accounts any debt due to or claim of the Crown that does not exceed \$1,000.

Deletion from the accounts of debts or claims of \$1,000 or over requires specific statutory authority, and for the year under review this was provided by Vote 681, which reads:

“To authorize the Treasury Board to delete from the accounts certain debts due to, and claims of Her Majesty, each of which is in excess of \$1,000, amounting in the aggregate to \$4,071,008.80—\$1”.

There is nothing in the wording of this Vote to indicate that, along with balances totalling \$3,880,022 in memorandum departmental accounts there were also balances totalling \$190,986 that were carried as assets in the Statement of Assets and Liabilities. These balances were with respect to loans made to fishermen, through the Provinces of Nova Scotia and Prince Edward Island, for abnormal equipment losses. When these asset balances were deleted from the accounts the result was that charges to the total of \$190,986 were made to 1960-61 Expenditure, as shown in the Public Accounts (Volume II, page 11-12).

In the Audit Office view, it would have been preferable had special reference been made to these asset balances in the wording of the Vote text, and had provision been made that they be recorded as charges against the “reserve for possible losses on realization of assets”.

65. *Examination of claims under the Winter Works Program.* The federal government has entered into agreements with each of the provinces to reimburse municipalities, through their provincial governments, for one-half of the direct payroll costs incurred by them on municipal winter works projects. The categories of works projects to which the contributions apply are defined in the agreements, and each project is subject to the approval of the provincial government and acceptance by the federal government. The agreements, in the form of an exchange of letters between the federal Minister of Labour and the provincial premiers, provide that claims for reimbursement by the federal government be audited by the provincial auditor or an auditor designated by him and certified by the appropriate provincial minister.

Attention is drawn to the fact that, unlike most federal-provincial cost-sharing agreements, these agreements contain no provision for examination by federal officers of provincial or municipal records supporting the claims, either before or after payment.

66. *Armed Forces travelling and removal regulations.* Travelling and removal expenses of members of the Armed Forces are paid in accordance with regulations contained in the Queen's Regulations and Orders, rather than under the Executive regula-



tions that are applicable to the civilian departments. Over the years, some of the regulations have been regarded as producing results that were unsatisfactory from the audit point of view and in such cases it has been our practice to draw the Department's attention to the matter in order that appropriate remedial action might be taken. In general, such action has been prompt; however, in the opinion of the Audit Office, the regulations seem to require some amendment in the two following sets of circumstances.

When servicemen are permitted to use personally-owned automobiles to transport themselves and their dependents to new places of duty, the regulations do not provide for reimbursement of actual cost as evidenced by receipts. Instead, the servicemen are allowed to claim amounts equivalent to the expenses that would have been incurred had the journeys been made by means of public transportation facilities. In recent years, with the introduction of various special rail transportation rates such as group and all-inclusive fares, the calculation of the hypothetical cost of such journeys has become more complicated and overpayments occur more frequently than previously.

Service personnel released with ten or more years' service are entitled, together with their dependents, to be moved at public expense to their "intended place of residence in Canada". Many use their personally-owned automobiles for the journeys and claim reimbursement on the hypothetical basis described above, which does not require the submission of receipted vouchers. Difficulties arise when a serviceman returns to the point of discharge or goes to some other place, after only a brief visit to the "intended place of residence", for the man alone knows if he had actually intended to take up permanent residence at the place indicated. Moreover, regulations do not require that any proof be produced that the journeys were, in fact, undertaken and cases have been observed where there was reason to believe that they were not. In the foregoing circumstances, the payment from public funds takes on the characteristics of a special retirement gratuity, rather than providing assistance towards rehabilitation which presumably is the intention of the regulation.

67. *Loss of aviation gasoline.* A storage tank used by the R.C.A.F. for holding aviation gasoline had been drained in preparation for cleaning but the tank was connected, by means of cross-flow lines, with a second tank from which issues were being made. When valves on the connecting feeder lines were erroneously opened, gasoline flowed into the empty tank and through an open manhole on to the ground, with the result that over 167,000 gallons, valued at \$44,600, were lost.

Although a board of inquiry found that the supervision of the tanks was lax, disciplinary action of a minor character was confined to the three leading aircraftsmen involved.

We are informed that, since this incident, Air Force regulations on the cleaning of fuel storage tanks have been amended to prevent the recurrence of this type of loss.

68. *Medical care for dependents overseas.* The Queen's Regulations and Orders provide that an officer or man whose dependent, while residing in an overseas area, is admitted to a military hospital, whether operated by Canadian military forces or by the forces of another country that cares for Canadian forces in the area, shall pay to the

Crown an amount equal to two-thirds of the prevailing rates charged for in-patient treatment by the Department of Veterans Affairs. Currently the amount thus required to be paid for each dependent is at the rate of \$13.37 per day except for children under six months, in which case the rates are either \$2 or \$3 per day, according to whether the mother is in the hospital or not.

It is compulsory for Service personnel serving outside Canada to insure their dependents under the Hospital Insurance (Outside Canada) Plan administered by the Department of Finance, and payments are made by that Department to the Department of National Defence of amounts equivalent to what would otherwise have been due by the servicemen on the basis referred to above.

It was noted in the audit that many dependents overseas received care in United States military hospitals, which levied charges at the rate of \$34 per day regardless of the age of the dependents. In these cases the amounts recovered by the Department of National Defence from the Hospital Insurance (Outside Canada) Plan thus represented only a small part of the amounts required to be paid by the Department to the hospitals. Thus, in respect of one billing covering 11 cases of hospital care, the Department paid out \$7,068 and recovered only \$2,051, or 29%.

The Department estimates that it is out of pocket approximately \$45,000 a year for the care of dependents overseas in United States military hospitals.

69. *Supply of Navy divers without charge.* Executive regulations provide that the Minister of National Defence, where in his opinion the national interest would be served, may authorize the supplying of services by the Department to organizations and individuals, on the following basis:

"The rate for the provision of the service shall not be less than the current commercial rate or, if no commercial rate is applicable or a commercial rate cannot be determined, the rate shall not be less than the cost to the department of supplying the service plus ten percent."

In the summer of 1960, headquarters approval was given for the services of Navy divers from Halifax to carry out underwater work in Newfoundland and Gaspe, on the submarine cable operated by the Canadian Overseas Telecommunication Corporation, a Crown company. A team of nine men proceeded to the sites and performed diving operations during a period of approximately one month, using some Navy equipment. On completion of the work, the men were paid their travelling and living expenses by the Corporation in the amount of \$3,476.

When the work was finished, the head of the diving team entered into an agreement with a private contractor who was engaged under contract with the Corporation on trenching and cable securing operations, to carry out further diving work at a site in Newfoundland. A team of five men worked for eleven days for which they were paid amounts totalling \$2,725 directly by the contractor, on the basis of daily rates of \$75 for the head diver and \$50 or \$25 for the other divers.

Attention is drawn to these arrangements for the reason that since the men continued to receive their regular Navy pay and diving allowances during the periods in



question, in amounts totalling about \$4,000 and \$9,500 respectively, the Department should have billed the Corporation and the contractor for the cost of supplying the services, including the use of Navy equipment, plus 10%, as required by the regulation quoted above.

The entire matter was under investigation by the Department at the year-end.

70. *Disbursement of death gratuity without authority.* When a civilian employee of the Department of National Defence died in December 1958, it was found that he had reached the compulsory retirement age of 65 over two years previously and had therefore been employed without authority during that period. Notwithstanding this, a cheque for \$1,000 was issued in January 1960, payable to the man's estate (his widow had died in the interval) covering a death gratuity equal to two months' salary, by relying on section 56 of the Civil Service Act. This section reads:

"When a person dies while in the Civil Service, after having been at least two years therein, an amount equal to two months of his salary shall be paid to his widow or to such person as the Treasury Board determines."

Audit exception is taken to the payment for the reason that, since the man was no longer legally "in the Civil Service" at the time of his death, the payment to his estate was irregular.

71. *Service pensions.* The Service Pension Board, appointed by the Minister of National Defence under section 20 of the Canadian Forces Superannuation Act, c.21, 1959, consists of a chairman, one member from each of the Services and a member to represent the Minister. The duty of the Board is to determine, in the case of any contributor who is retired from the Forces, the reason for his retirement, and on making such determination to certify in writing the reason as determined by it, and no payment of any annuity or other benefit may be made under the Act to a contributor who is retired except upon certification in writing by the Board.

Reasons for retirement fall into the following categories: having reached compulsory retirement age, having become disabled, to promote economy and efficiency, inefficiency, misconduct and voluntary, and the reason determined in each case has a direct bearing on the benefit payable. In the audit the following cases were noted where the reasons determined by the Board resulted in substantially more generous benefits than would have been the case had other reasons, which seemed indicated by documents on file, been accepted.

In one case a corporal, aged 27, had signified in writing some nine months prior to the expiration of his term of engagement that he did not intend to re-engage. Normally, having so signified, he would have been struck off strength at the end of his engagement period, on a voluntary retirement basis, and received a return of pension contributions which in this case would have amounted to \$2,031. Instead, it was decided to retire the man compulsorily "to promote economy and efficiency" about three months before the expiration of the engagement period. As he then had 10 years and 9 months' service he was granted an immediate life annuity of \$599 to age 65

and \$856 thereafter, with a total value of some \$27,000. The file indicates that the man during his service "had been most erratic in his behaviour and attitude towards service life" and that he was an "administrative nuisance".

In another case, an Air Force officer, aged 37 years, with about 15 years' service on the flying list, became subject to airsickness and a medical board lowered his category, thus rendering him unfit for further employment as aircrew. He was offered a transfer to another branch of the Service but declined. He was accordingly retired on a voluntary basis in January 1960 and received a refund of pension contributions in the amount of \$4,377. The file indicates that the officer had applied for release for the purpose of returning to university to further his education, prior to his initial medical examination, and another medical board stated that "symptoms of airsickness were reported at a time when it appeared advantageous to furthering his personal plans". Following the release, representations were made by and on behalf of the man regarding the non-pensionable discharge. The Board reviewed the case and amended the original finding to read "retired by reason of having become disabled", thereby establishing a right to an annual pension of \$1,943, with a total value of approximately \$68,000.

72. *Annuities to servicemen retired for inefficiency or misconduct.* In last year's report reference was made to the provision with regard to retirements for inefficiency, in the Canadian Forces Superannuation Act, c. 21, 1959, that, in the discretion of the Treasury Board on the recommendation of the Minister of National Defence, a contributor may be paid the whole or any part of any pension he would have been entitled to if he had been retired to promote economy and efficiency—in other words, for normal cause. A case was commented upon in the report where the Department had sought and obtained Treasury Board approval for an annual pension to an officer who still had 11 years to serve and who had been retired for inefficiency, based on 95% of the permissible maximum, whereas had he retired voluntarily he would have received only 45%.

In its Fifth Report, 1961, the Public Accounts Committee took note of the discretionary authority of the Treasury Board in this regard, and recommended (paragraph 47):

"that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case could a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily."

Although no amendment was made to the Act, the Department, on June 15, 1961, with the approval of the Treasury Board, introduced a new plan for determining awards in respect of retirements for inefficiency. Under the previous plan awards were based on the ratio of good and faithful service to the total service of the contributor without regard to age. The new plan, however, provides for the normal pension to be reduced by 5% for each full year by which the age of the contributor at the time of retirement is less than the compulsory retirement age applicable to his rank. Although



this plan provides for basically the same benefits as in the case of voluntary retirements, it at least removes the anomalous situation whereby members retired for inefficiency could receive greater benefits than if they had retired voluntarily.

In connection with retirements for misconduct, the Defence Services Pension Act which preceded the Canadian Forces Superannuation Act provided for one-half pension to age 65 and two-thirds thereafter. The new Act, however, as in the case of retirements for inefficiency, leaves the determination of the amount of an annuity largely to the discretion of Treasury Board, based on the recommendation of the Minister. During the fiscal year, 14 servicemen who were retired for misconduct not related to military duty were awarded interim annuities ranging from 70% to 95% of the permissible maximum. These annuities have been put into monthly payment and will continue until they equal a return of contributions. The payments will then be deferred until the ex-member (a) reaches the retirement age applicable to his former rank or (b) would have completed 25 years' pensionable service if he had remained in the Forces, whichever is earlier. Following the deferment period the annuities will be increased by 5%, and nine of the 14 annuitants will then be receiving 100% pensions. The total value of these 14 annuities is estimated to be some \$190,000 greater than would have been the case had the awards been made under the former Act.

On June 15, 1961, concurrently with the introduction of the new plan relating to retirements for inefficiency, a similar plan for determining awards for retirements for misconduct became effective with respect to retirements after that date.

*73. Indirect contributions towards provincial taxes.* An anomaly in connection with the operation of the Hospital Insurance and Diagnostic Services Act is that the federal government is, in effect, contributing towards provincial taxes by reason of the fact that provincial sales tax amounts are included in the claims submitted by the provinces for hospital operating costs shareable under the hospital insurance scheme.

In March 1960 the Department of National Health and Welfare wrote to the provinces then levying sales taxes, to the effect that, since the federal government provides for the exemption of hospital purchases from federal sales tax, as well as customs concessions for a large portion of hospital imports, consideration might be given by the provinces to exempting participating hospitals from the payment of provincial sales taxes. However, the provinces were, generally speaking, unwilling to consider such reciprocal action, pointing out, among other things, that there was nothing in the agreements under the Act, or in the Hospital Insurance Regulations, requiring that such taxes be deducted from hospital operating costs as being non-shareable.

With the exception of Manitoba and Alberta, all provinces impose sales taxes. Exemptions from these taxes vary among the provinces, Quebec exempting hospital purchases entirely while other provinces exempt individual items such as drugs, foodstuffs and fuels. However, ordinarily the taxes do apply to items such as furnishings, equipment and cleaning supplies, the costs of which are shareable under the hospital plan.

The extent to which the sharing of provincial tax payments by hospitals adds to the federal contributions under the hospital plan is not known, but the basic principle of contributing to provincial taxes in this way would appear to be open to question.

74. *Unemployment Assistance contributions to provinces.* In last year's report the Audit Office opinion was re-stated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations and that the text merits further consideration. Our examinations during the past year have served to confirm this opinion and have also pointed to the desirability of exploring the need for regulations to amplify various sections of the Act in order to promote a greater degree of uniformity in its application throughout Canada.

A number of overpayments were reported upon last year involving Nova Scotia, Alberta and British Columbia. Overpayments to Alberta of \$43,000 were confirmed and recovered during the year under review. With respect to Nova Scotia, overpayments of \$55,000 have been recovered, although it is understood that this amount is still subject to minor revision. The amount recoverable from British Columbia, originally estimated at \$360,000, has now been revised to approximately \$131,000 and about \$86,000 has been recovered. The substantial reduction of the overpayments in British Columbia, which related to child welfare cases, was to a considerable extent the result of the Department's decision to accept as shareable, assistance paid in respect of a child in a 'mother's allowance type of foster home', defined as the home of a relative of the child, provided the relative with whom the child is living is unemployed and the family meets some test of need which necessitates assistance being paid to it on behalf of the child. The Department agreed that an acceptable test of need would be that the relative is in receipt of social assistance or his income does not exceed the income ceiling specified in the provincial legislation or regulations.

In Ontario, some of the municipalities have been claiming, as shareable, the costs of assistance in cases where the recipients were required to work out assistance given them. The Department concurs in our view that such assistance is not shareable under the agreement and steps are presently being taken to determine the extent of the practice and the amount of possible recoveries.

In Quebec, examinations by the Audit Services Division of the Office of the Comptroller of the Treasury and this Office have revealed misinterpretations of certain clauses of the Act and Agreement, such as failure to take into account the income of inmates in homes for special care in arriving at shareable costs, and confusion about what rate is to be used as a basis for sharing the cost of accommodation in homes for special care. Adjustments of resulting discrepancies revealed by audit are currently under discussion. In an effort to cope with the large backlog of audit work resulting from the rapid implementation of the program in Quebec, and special problems that have arisen in bringing the province's system of social assistance within the requirements of the Unemployment Assistance Act and Agreement, arrangements have been made for the Audit Services Division to assist the Provincial Auditor in the examination of accounts received



by the province from homes for special care. The practice followed in other provinces, whereby the provincial auditors' examinations of claims and certification in accordance with the agreements precedes separate examinations made on behalf of the federal government, will, we understand, be implemented as soon as conditions permit.

With regard to the cost of maintaining needy persons in provincial and municipal homes for special care, there does not appear to be a uniform policy in determining the elements of cost to be included in calculating the monthly accommodation rates. For example, in Ontario depreciation on existing plant and on additions to plant and equipment is excluded but the cost of equipment replacement is included. On the other hand, in the Maritime Provinces expenditure on modernization of old buildings, installation of sprinkler systems and elevators, etc., amortized over several years, has been included in determining monthly rates. In Saskatchewan, operating costs, upon which monthly rates are based, include depreciation charges and also charges for the amortizing of loans to finance buildings.

Among the exclusions under subsection (2) of section 4 of the Act are payments made by way of supplemental allowance or cost of living bonus to persons in receipt of old age assistance, blind persons' allowances, disabled persons' allowances and old age security pensions. However, the Act does provide that additional relief may be paid to persons in receipt of the above-mentioned forms of assistance when need is indicated. During the year under review, the Department agreed that supplemental allowances being paid in Saskatchewan, Alberta and British Columbia could be regarded as additional relief payments in accordance with section 4 (3) (b) of the Act and section 8 of the agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. Saskatchewan and Alberta met these requirements and have been including supplemental allowances in their claims since April 1, 1961 and June 1, 1961, respectively. British Columbia has included supplemental allowances in its unemployment assistance claims since September 1, 1960; however, there is some doubt about the way in which budgetary assessments have been made and some revision of past claims may be necessary.

It has also been noted that the use of the word 'unemployment' in the title of the Act has from time to time caused confusion. For example, it appears to have been the intent of the legislation to assist unemployables as well as unemployed employables. Mental defectives, paraplegics and other disabled persons and senile people, including some who have never been in the labour market, are being assisted under the legislation. Yet, even in its broadest sense, the term 'unemployed' would be expected to include only persons who have been, are or will be capable of employment.

Consideration of the Unemployment Assistance Act and its relationship with other federal social assistance programs also raises the broader question of overall co-ordination of all programs involving assistance to individuals with a view to the avoidance of irregularities, overlapping or duplication among programs, and the achievement of greater uniformity in the treatment of the recipients and economy of administration.

75. *Cost of constructing high speed wind tunnel.* In August 1954 the Department of National Defence obtained approval for the construction of a high speed wind tunnel at the National Aeronautical Research Establishment at Ottawa. The tunnel was regarded as an essential part of the air defence program, particularly in the later development of the CF-105 aircraft and ancillary guided missiles, and was planned for completion by 1957-58. In November 1954 Executive authority was granted to proceed with the project at an estimated cost of \$3,750,000. It was recognized, however, that the highly technical nature of the project, which would make it necessary to develop plans and specifications for some components as the work progressed, made it impossible to forecast costs accurately.

Expenditures incurred up to March 31, 1958 were charged to appropriations of the Department of National Defence. Subsequent costs have been shared equally by that Department and the National Research Council. A total of \$7,531,000 had been spent on the project to March 31, 1961, of which \$4,155,000 was charged to the Department and \$3,376,000 to the Council. It is understood that, on the basis of present plans approved by Executive decision, the final cost is likely to reach \$9 million.

Attention is drawn to the matter because of the extent to which the project and its cost have expanded since the original authorization was given and also because, while some seven years have elapsed since the work was commenced, the project is not yet complete.

76. *Doubtful title to property in Newfoundland.* Following Union of Newfoundland with Canada, three Crown-owned residences located in Cornerbrook continued to be occupied by customs officials, formerly in the employ of Newfoundland, who had been transferred to the Government of Canada. A fourth residence in the same locality, occupied by a Newfoundland Post and Telegraph official, was taken over in December 1956 by the Department of National Revenue through the issuance of an Exchequer Court writ of possession.

The Department was of the opinion that all four residences were the property of Canada in accordance with sections 33 and 34 of the Terms of Union. However, when three of the residences (including the one which had been taken over by court order) became temporarily vacant in January 1957 and October 1958, officers of the provincial government took possession and the Government of Canada has received no rental payments since. The fourth residence continues under the control of the Department of National Revenue and is occupied by an officer of the Department who had been in the customs service of the province before Union.

In the period of nine years following Confederation, expenditures in excess of \$15,000 were made for repairs, maintenance, taxes, etc., while rentals collected in the same period amounted to \$3,900. Expenditures for water and sewage services for all the houses were continued up to June 1960, the amount expended on the three houses taken over by the province being \$500 from the time they were taken over up to June 1960.

The question of ownership of the houses has been with the Department of Justice since July 1957.



77. *Identical tenders for incandescent lamps, etc.* During the audit it was noted that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes, to meet the needs of various federal buildings throughout Canada, for delivery as and where required during the fiscal year commencing April 1, 1961. Based on the application of unit prices to estimated quantities of the various items, identical bids of \$301,191.16 were received from the three companies which submitted the lowest complete tenders. The Department's file indicated that it had written to each of the three firms stating that it was "most difficult to understand how in a tender call involving in excess of \$300,000 equal bids, even to cents, could be received in what is presumed to be a competitive market".

The same companies were asked to re-tender and each submitted the same bid as in the first instance. The Department then placed the facts before the Treasury Board which, early in February 1961, authorized the placing of the order with a company other than the one which had held the contract for supplying similar requirements during the two previous fiscal years.

In the course of our inquiries into this case, we were informed that this was the third instance of identical bids for lamps during the past four years. In at least two cases the Department has placed the facts before the Combines Branch of the Department of Justice. The branch has pointed out that the fact that identical tenders are submitted is not of itself conclusive evidence that there has been collusion, in the criminal sense, in arriving at the amount bid by each supplier. However, the branch accumulates evidence of identical tenders in the event that such evidence may ultimately become relevant and useful should evidence of collusive practices be disclosed.

78. *Doubtful charges against Vote 446.* In March 1960 the Department of Transport sought Executive approval in principle for the construction of additional airfield facilities at Frobisher, N.W.T. As there was uncertainty regarding the future of the airfield, the Treasury Board suggested that the proposed work be left in abeyance. The Department then requested permission to contract for the supply of 55,000 tons of gravel which might later be required for the proposed work, pointing out that a contractor, who was currently working on the site, could probably supply the gravel at a considerable saving from the cost that would likely be incurred were a contractor brought into Frobisher at some later date for the specific purpose. It was also stated that if it transpired that the additional airfield facilities were not required, the Crown would have a supply of gravel which would eventually be required for other development and maintenance work in the area. On the basis of these representations, the Treasury Board authorized the Department to contract for the gravel, and the \$140,304 cost was charged to the appropriation for "Civil Aviation Branch—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 446, as supplemented by Votes 654 and 747).

In the Audit Office view, it would have been more appropriate had the cost of the gravel been charged against the Department of Transport Stores Account, and a charge to Expenditure recorded only in a later fiscal year when the material is used.

Another case involving an overcharge to Vote 446 was the contract entered into by the Department of Transport in January 1957 for the supply and erection of curtain-wall

and fixed glass assemblies for the air terminal building at the Montreal International Airport at a fixed price of \$1,692,058. During the course of the construction, additional work estimated to cost \$56,899 was authorized, increasing the contract price to \$1,748,957. In April 1960 the contractor was declared bankrupt. By that time, the appropriation had been charged with \$1,639,088 for work completed, leaving \$109,869 to cover work still to be done. When the trustee in bankruptcy declined to complete the contract, negotiations with the general contractor on the air terminal building resulted in an offer by that contractor to complete the work for \$156,640. In giving its approval to the acceptance of this offer, the Treasury Board directed that \$109,869 would be chargeable to the appropriation for "Civil Aviation Branch—Construction or Acquisition of Buildings, Works, Land and Equipment" and the balance recoverable from funds retained in the security deposit and holdback accounts in the name of the trustee (which amounted to \$111,012).

Notwithstanding this direction, the full amount of \$156,640 was recorded against Vote 446 which was therefore overcharged to the extent of \$46,771. It should be noted, however, that up to the time of the audit the credits in the accounts in the trustee's name had not been paid out to him.

79. *Route facility fees receivable from airlines.* Prior to the introduction of a route facility fee, the trans-oceanic landing fee was intended to cover both airport and route facilities provided by Canada for North Atlantic and Polar flights. In recent years a change in the air traffic pattern across the North Atlantic has resulted in airlines operating non-stop flights across Canadian territory, while taking advantage of the route facilities provided by Canada for the operation and safety of the flights. The resulting loss of landing fee revenue has contributed towards a steady increase in the net cost of maintaining the route facilities. In November 1960 Executive regulations made under the authority of section 18 of the Financial Administration Act provided for the assessment of a fee of \$64, retroactively to January 1, 1960, for each trans-Atlantic flight, Polar flight, or both, with the proviso that in the event of a landing at a Canadian airport, the trans-oceanic landing fee would be reduced by the amount of the route facility fee.

A number of foreign airlines have objected to the assessment of the route facility fee and have declined to settle accounts rendered by the Department of Transport. The fact that the regulations provide for a reduction in the trans-oceanic landing fee by the amount of the route facility fee has been taken into consideration by several airlines who have refused the assessment only in respect of flights not landing in Canada. Others have, however, refused payment in respect of all flights, including those landing in Canada, with the result that they have been paying less in fees than they had done before the route facility fee was introduced.

By March 31, 1961, balances carried on the records of the Department of Transport as owing by ten airlines, in respect of route facility fees assessed by the Department under the regulations, amounted to \$1,284,000, and the total was increasing at the rate of approximately \$100,000 monthly.

80. *Large fee paid on target price contract.* In June 1956 the Department of Transport invited tenders for construction of a 5000 foot airport runway, taxiway and parking apron at Inuvik, N.W.T. As the only tender received was for \$9,900,000, compared with



a departmental estimate of \$5,500,000, the Department negotiated with the tenderer. As a result, a contract for a shorter runway was entered into in October 1956, under which the contractor was to be paid for actual costs incurred together with a fixed fee of \$500,000 and 30 per cent of any saving in cost below a target price of \$5,000,000.

In May 1958, the Treasury Board approved amendments to the contract (a) to provide for an extension to the runway, (b) to change the basis of payment for work remaining to be done to firm unit prices for estimated quantities, and (c) to set the target price for work completed prior to May 1, 1958 at \$4,032,020. In 1959 this target price was increased to \$4,233,028, with Executive approval, on the basis of "the finalized quantity figures involved".

The final payment under the overall contract was made during the year under review. The net cost of the work performed prior to May 1, 1958 was \$3,049,711, calculated as follows:

Construction costs .....		\$ 1,925,896
Less—		
Value of material delivered to another department .....	\$ 80,185	
Proceeds of insurance claim .....	17,422	
		<u>97,607</u>
Net construction cost .....		1,828,289
Fee:		
Fixed .....	500,000	
Bonus (30% of savings under the target price of \$4,233,028) ....	721,422	
		<u>1,221,422</u>
		<u><u>\$ 3,049,711</u></u>

As a fee of \$1,221,422 appeared to have been an extraordinarily large one in relation to the \$1,828,289 net construction cost of the work performed to this point, the Department was asked whether the contractor had been approached to waive entitlement to any part of it. The reply left this question unanswered but it did point to circumstances which the Department felt demonstrated that it had acted in a reasonable manner. Thus, it was pointed out that there had been several renegotiations of the original contract, including that referred to above, after it became evident by the end of 1957 that costs would be lower than had been estimated; and that a further assessment of the situation in the winter of 1958-59 had resulted in successful negotiations for a reduction in certain unit prices on the work remaining to be done. It was also pointed out that when the overall project had been completed, it included a 6000 foot runway constructed at a total cost of \$5,380,000, compared with the tender of \$9,900,000 and the departmental estimate of \$5,500,000 for a 5000 foot runway.

81. *Assistance given under the Veterans' Land Act.* A few instances have been noted in the audit where assistance had been given to veterans under the Veterans' Land Act, c. 280, R.S., as amended by c. 66, 1953-54 and c. 37, 1959, when their financial circumstances were such as to raise some doubt as to whether the assistance was in harmony with the intent of the legislation. This, as indicated by the preamble to the Act, is to

provide assistance as a measure of rehabilitation for veterans who "have limited financial assets and the lack of such assets has proved to be the main obstacle in the fulfilment of settlement contracts and to the acquirement of farm home ownership". The following case will serve to illustrate the situation.

A veteran was established on a farm in 1945 and was advanced the maximum sum of \$4,400 allowed under section 15 of the Act, on the security of land owned by him. In 1954 he made application to change his contract and to be brought under section 10 of the Act, which provides for financial assistance of up to \$6,000 on the sale of land and property to a veteran and has, as an attractive feature, the convertibility of a substantial portion of the assistance given into a grant upon fulfilment of the terms of the contract for ten years. The application was initially rejected by the Department but subsequent representations resulted in a change in the contract being ultimately effected as from January 1, 1959.

In September 1960 the veteran applied for a loan under the "farm improvement assistance" section of the Act (Part III) for the purpose of building a grain storage and handling facility, but his application was refused by the Department on the grounds that the cost of building, maintaining and operating the type of facility contemplated would be uneconomic in relation to the size of his herd. Further representations by and on behalf of the applicant resulted in a loan of \$15,179 being approved in November 1960 on the basis that the loan was to consolidate his debts. This, it was stated, would improve his financial position and might permit the extension of private credit and let him build the grain facility "on his own resources". Departmental files indicate that at the time of his application for this loan, the veteran's net worth was \$102,000 and his annual gross income \$33,000.

82. *Educational leave.* The Civil Service Regulations provide for the granting of educational leave

- (a) with full pay where it has not been found possible to obtain a qualified person for a specialized position and it is considered that an employee could, after further special training at a university, perform the duties of the position efficiently;
- (b) with full pay for a period up to three months where courses are provided at a university as refresher courses or courses of special instruction to benefit civil servants; tuition fees and living expenses may also be paid;
- (c) with half pay when an employee who is directed to carry out a research project at a university because of special facilities there, or to do any departmental work at a university, desires to seek academic credit for further studies in his field while at the university;
- (d) without pay for the purpose of attending university if it is considered that the proposed course will be of material assistance to the employee in increasing his efficiency and gaining advancement in the service.

The Civil Service Commission has reported that during 1960, 185 employees were given leave to attend university, 38 without pay, 54 with full pay and 93 with half pay.



Included in the last group were employees who did not qualify for payments under the Civil Service Regulations and for whom the Treasury Board approved payment of non-accountable allowances equivalent to one-half their salaries.

The cost of salaries and allowances together with tuition and living expenses of employees on educational leave during 1960 has been estimated by the Commission at \$500,000. Periods of educational leave often extend over several years and, while an employee who has been granted leave understands that he is expected to return to the service of the federal government for a period of time equivalent to that for which leave has been approved, there is no guarantee that he will do so, and no provision for the recovery of any portion of the outlay should he not return to duty.

A case was noted where an employee was granted leave to complete a doctoral thesis and received \$8,134 in half pay or allowances from September 22, 1958 to August 31, 1960, when he resigned to assume a professorship. Payments on the basis of half pay made to him by his department during his absence were increased by a promotion, an annual increase and a salary revision, and he accumulated pensionable service for superannuation purposes, the Government continuing to pay matching contributions to the superannuation account. Moreover, in this period he also received remuneration from the university as a research assistant.

The extent of the educational program seems to warrant special provision of funds by Parliament to assist persons attending university (often in a foreign country), rather than the inclusion of the cost with the salaries and expenses of employees on duty in the various departments.

83. *Cost of gasoline used in departmental motor vehicles at Ottawa.* A survey of gasoline purchases in Ottawa by a number of departments showed considerable variation in the prices being paid. Several departments were paying from 11.7 to 17.1 cents per gallon more than the price for which the Department of National Defence was able to provide gasoline to the Comptroller of the Treasury's Office. Accordingly the Audit Office raised the question of the feasibility of supplying gasoline and oil for all government vehicles in Ottawa from a central supply point, e.g., National Defence, and the matter has been referred to the Government Motor Vehicle Committee for consideration. Advice regarding a decision has not yet been received.

84. *Unpaid accounts carried forward to new fiscal year.* The following cases are commented upon for the reason that Parliament was not asked for supplementary 1960-61 appropriations to cover extra cash requirements, with the result that accounts remained unpaid at the year-end and became recorded as expenditure in the 1961-62 fiscal year:

1. As the 1960-61 fiscal year progressed it became apparent to the Department of National Defence that, although commitment authorities would not be exceeded, there would be insufficient funds available in the appropriation for "R.C.A.F. Construction or Acquisition of Buildings, Works, Land and Major Equipment" (Vote 225) to pay accounts coming in course of payment, due largely to a speed-up in the CF-104 aircraft program. A supplementary appropriation of \$15,000,000 was accordingly requested by the Department, but the amount was reduced to \$10,000,000 by the Treasury Board

and the supplementary appropriation (Vote 707) granted in due course was for that amount. This proved to be insufficient (as, indeed, \$15 million would also have been) and unpaid accounts totalling \$11,333,000 for goods received and services rendered before the close of the fiscal year were carried forward and paid from the 1961-62 appropriation.

2. When it seemed likely to the Department of National Defence that, although commitments had been entered into with due authority, an insufficient balance would remain in the appropriation for "Defence Research Board—Construction or Acquisition of Buildings, Works, Land and Equipment" (Vote 227) to meet accounts as they became payable, the Department requested a supplementary appropriation of \$290,000. The request was, however, not supported by the Treasury Board and, lacking this, no supplementary appropriation was provided. As a result, unpaid 1960-61 accounts totalling \$111,000 had to be carried forward as a charge to the 1961-62 appropriation.
3. Early in 1960 the Department of Public Works advertised for tenders for the construction of extensions to the Applied Physics Laboratories of the National Research Council. On the basis of the lowest tender of \$2,978,700, which was acceptable, it was anticipated that about \$2,000,000 would be expended on the work during the 1960-61 fiscal year, but when the Department requested the Council to arrange for the transfer of funds to cover the anticipated outlay to March 31, 1961 it was informed that only \$800,000 had been provided for the project in the Council's construction vote. The Department then informed the contractor that he could either time the work to suit himself or proceed as originally planned with the understanding that he could not be paid for the value of work done in excess of about \$800,000 until additional funds were made available by Parliament. He chose the latter alternative and a contract was awarded on April 20, 1960. By March 31, 1961 the contractor had presented progress claims totalling \$1,642,956 and payments of \$837,424 were made on account and charged to the Council's 1960-61 appropriation for "Construction or Acquisition of Buildings, Works, etc." (Vote 257, supplemented by Votes 535 and 607), thus leaving an obligation of \$805,532 to be carried forward as a charge to the 1961-62 appropriation.

Another case was noted where unpaid amounts were carried forward to the new fiscal year, though not for the reason that an insufficient balance remained in the appropriation affected. Requisitions for overtime pay to its employees for 1960-61, which were submitted by the Civil Service Commission at the year-end, were questioned by the Comptroller of the Treasury and were not processed in time to be recorded as a charge to the Commission's 1960-61 appropriation for salaries and contingencies (Votes 65, 667 and 121). Payments were made in June 1961 to a total of \$27,085, as a charge against the 1961-62 appropriation.

85. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts". The statement of losses included in the Public Accounts for 1960-61 was examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts, is included in the listing.



In its Fifth Report, 1961 (paragraph 73) the Public Accounts Committee recommended:

"that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected, in a manner similar to other departments".

As a result of this recommendation, Post Office losses are, for the first time, reported for the 1960-61 fiscal year in the same manner as losses of other departments.

86. *Non-productive payments.* Paragraph 71 of the Fifth Report, 1961, of the Public Accounts Committee reads:

"The Committee gave consideration to the extent to which it felt it would wish to be informed regarding non-productive payments in future. Although it recognized the difficulty that would be involved in defining a 'non-productive payment', it came to the conclusion that information regarding such payments would be of value, and it accordingly requests the Auditor General, in his future annual reports to the House of Commons, to include listings of any such payments that might have come to his notice in the course of his audit."

In accordance with the foregoing request, a listing is given below of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of departmental expenditure accounts during the fiscal year 1960-61:

1. On November 2, 1959 contracts were entered into by the Department of Defence Production for the removal of snow during the 1959-60 winter season, at the rifle range and armouries in Sherbrooke, at a total estimated cost of \$12,500. Shortly afterwards, complaints were made to the Department's local agent about the manner in which the snow removal contracts had been awarded, it being alleged that the contractor had given a false address to represent himself as a Sherbrooke resident while in fact he lived some 25 miles outside the city. In January 1960, after work to the value of about \$3,500 had been performed, the contracts were terminated and awarded to a Sherbrooke contractor. The former contractor thereupon filed a petition of right claiming compensation of \$6,000 for losses which he had sustained as a result of the termination of the contracts. On the recommendation of the Department of Justice, the case was settled out of court for \$2,500.
2. Following the outbreak of hostilities in Korea in 1950, substantial quantities of cloth were purchased by the Department of Defence Production and, in order to provide suitable storage facilities, a warehouse in Montreal was rented by the Department in 1952 at an annual cost of \$136,400. In the intervening years, there was a considerable reduction in the quantities of cloth held in storage and early in 1960 the remaining holdings—then largely surplus to requirements—were transferred to the Department of National Defence. The lease for the vacated premises, last renewed on June 1, 1957, does not expire until May 31, 1962. A portion of the space was rented to the Department of National Defence for the purpose of storing aircraft tooling and this resulted in \$92,000 being recovered by the Department of Defence Production, but intensive efforts to find sub-tenants for the remainder of the space were unsuccessful and the landlord has refused to surrender any of his rights under the lease. Consequently, in the year under review he was paid the full rental of \$136,400. In addition, maintenance expenditures of \$17,600 were incurred. The net cost of the unused space thus amounted to \$62,000 during the year.



3. The Ground Observer Corps was disbanded by the Department of National Defence in the summer of 1960. The leases of buildings that had been used by the Corps at three locations ran on into 1963 and, since efforts to sublet have proved fruitless, rents are being paid, and may have to continue to be paid until the expiry dates, at the rate of about \$28,000 a year.
4. A firm price contract for \$16,043 was entered into for the Department of National Defence in February 1956 for the design and manufacture of cabinets to house electronic communication equipment at three Naval establishments and a design was made based on information supplied by the Department. Several months later, when additional technical data was made available to the contractor, he found that the design had to be scrapped because the equipment would not fit the proposed cabinets. The cabinets were redesigned but, in April of the following year, it was brought to light that the equipment at one of the establishments differed materially from that at the other two, and a completely new design therefore became necessary for that unit. At this point the contract price was increased to \$25,416. However, as the work progressed additional costs were incurred as a result of the changes in design and the contractor sought a further increase in price. During the year under review a final amendment was issued in the amount of \$37,121 on the basis of costs established by cost audit. The end result was that the contractor was paid an additional \$21,000 mainly because of the inadequate and faulty information with which he had been provided.
5. A contractor was awarded a series of 11 contracts amounting to \$264,545 for chapel furniture in 1954, to be delivered to various Air Force stations. Inspection was carried out at the factory but, after some of the furniture had been received and installed by the Air Force, defects became apparent and the work was suspended for a period of about eight months. In a petition of right filed in August 1959 the contractor claimed that the furniture had been fabricated according to specifications and that extra costs had been incurred due to unjustified interruption of deliveries and shop operations by representatives of the Department of National Defence. The claim was settled out of court for \$32,782, on the recommendation of the Department of Justice, during the year under review.
6. In March 1958 a contract was placed for the Department of National Defence for the supply of 51,897 leakproof metal boxes at a total cost of \$97,866 for use by Canadian Arsenals Limited, and testing equipment considered by the Inspection Services Division to be suitable for checking conformity with the leakproof requirement was set up and used. About a year later, after 29,400 of the boxes had been produced, tested and delivered, it was found that approximately 30% of them leaked. Production was stopped and the contractor was required to develop new testing equipment and to rework the completed and partially completed boxes in his plant. In due course the contractor submitted a claim for the additional costs incurred as a result of the general slowdown in production brought on by the more critical testing requirements and he was paid an additional \$44,507.
7. In October 1959 a contract was placed for the Department of National Defence for the construction of a retaining wall, using the wire basket method, at Osborne Head Gunnery Range, Halifax, at a cost of \$17,450. After installing about 5% of the baskets the contractor stopped work in December 1959, with departmental consent, because of winter storms. Early in March of the following year the installation was examined and it was found that the baskets were in a badly damaged state as a result of wave action. The project was thereupon abandoned at a cost of \$6,830.

8. Generally, weather conditions in the North limit the road building season to the months of June, July and August. The National Defence Department's construction program for 1959-60 included provision for reconstruction and paving of 50 miles of the Alaska Highway at an estimated cost of \$3,000,000, with the work expected to be completed in two seasons. A "request for contract" was not issued by the Department until April 23, 1959 and a submission to Treasury Board for approval of a contract was not made until June 18, 1959. When the Treasury Board requested a reassessment of the cost, on the grounds that the paving costs were too high, it was not until August 13, 1959 that the Board's approval was given. Although work was then commenced without delay, the greater part of the 1959 season was lost and, it being impossible to complete the work during 1960, it had to be carried on into a third season. As a result, the contract that had been entered into with a firm of consulting engineers for engineering supervision had to be extended and the additional cost amounted to \$39,500.
9. Three instances were observed where there were lengthy delays between the manufacture of boilers for central heating plants and the completion of the buildings to house them, with the result that the boiler manufacturers had to be paid storage together with reconditioning and other costs by the Department of National Defence. In one case a delay of 22 months occurred by reason of changes in and modifications to the heating system, and the manufacturer was paid an additional \$11,467 for reconditioning the boilers and rescheduling his work to meet the new installation date. In another case the installation was delayed over two years due to substantial changes in the design of the plant and the contractor was paid an extra \$8,283 to cover his additional expenses arising from the delay. In the third case the manufacturer received \$3,491 for storage and other costs incurred by reason of a delay of about a year between the completion of the boiler and its actual installation. The extra costs thus incurred in the three cases totalled \$23,241.
10. Of 205 electrical batteries manufactured according to specifications of the Department of National Defence, 196 proved to be faulty in use and were returned to the contractor for rectification and modification at an additional cost of \$12,981. The departmental file indicates that the additional cost was incurred as a result of the Department's failure to give the contractor suitable supervision and inspection service.
11. In October 1957 Treasury Board approval was given for the construction at a cost of \$44,760 of two residences at Pigeon River, Ontario, for the use of Customs-Excise officers, bringing to four the number of Customs-Excise residences at the Port. One of the officers for whom a residence was being built was transferred and was replaced by an unmarried man. The house has never been occupied and the Department has been paying the cost of fuel oil and electricity in addition to the regular expenses of upkeep, including painting of the exterior. From information on file, the four houses, together with two residences occupied by officers of the Department of Citizenship and Immigration, are to be moved to a new housing site, the preliminary estimate of the cost of moving the six houses being approximately \$40,000.
12. In 1955 the Department of Public Works entered into a contract for the preparation of plans and specifications and the subsequent supervision of construction of buildings in the Confederation Heights development at Ottawa. As the work progressed the architects were requested to prepare revised plans covering a number of proposed structural changes. Ultimately it was decided not to proceed with the alterations. In May 1960 a payment of \$12,737 was made for services rendered in the preparation of the unused plans.



13. Early in 1957 the Department of Public Works entered into an agreement with a firm of consulting engineers for the preparation of plans and specifications for and subsequent supervision of the construction of a postal station at Toronto. After sketch drawings had been prepared, changes in proposed occupancy established that a much smaller building would be required and the original plan was abandoned. During the year under review a payment of \$11,800 was made to the consultants as a fee for the work they had done.
14. In October 1959 the Department of Public Works entered into a contract at a fixed price of \$318,542 for the construction of a public building, consisting of a basement and two storeys, at Elliot Lake, Ontario. In February 1960, by which time the contractor had completed the foundation work and acquired materials, it was considered that, in view of the decline in the economic outlook for the community, the space to be provided by the building as planned would be in excess of likely future requirements. The Department therefore decided to eliminate the second storey, at an estimated saving of from \$50,000 to \$75,000, and the contractor was accordingly instructed to cease operations until revised plans could be prepared. Because of the time involved in revising the plans and negotiating with the contractor, it was not until the following October that agreement was reached on a fixed price of \$338,368 for the altered structure. Although a saving of \$37,021 from the elimination of the second floor entered into this calculation, it was more than offset by provision of \$20,512 for additional costs in connection with revised partitioning, added overhead expenses of \$21,535 because of the delay to which the work had been subjected, and \$14,800 to cover the extra cost of carrying the work through a second winter. Consequently, the net result of constructing a one-storey building rather than the two-storey structure originally planned will be an increase in cost of almost \$20,000.
15. In May 1960 the Department of Public Works entered into a contract for harbour improvements, consisting principally of the construction of a cribwork structure at Etang du Nord, Quebec, at a price of \$176,230. Shortly after the project was started some local fishermen, who had earlier expressed satisfaction with the plans, raised strong objections to the location of the proposed structure and impeded the launching of the first crib by placing boats at the foot of the launching slipway. Work was stopped for about a month, after which the contractor was instructed to recommence operations. When his attempt to do so was again impeded, he was notified by the Department that the contract had been terminated. In February 1961 the contractor's claim was settled for \$144,362, including \$96,147 for unused materials which the Department proposes to use on another project in the area. The net result was therefore a non-productive outlay of \$48,215.
16. In 1957 the Department of Public Works entered into a contract for the construction of a public building at Belleville. In January 1961 three "delay claims" submitted by the contractor were settled for \$28,022, as follows:
- |   |           |
|---|-----------|
| (1) Expenses incurred and equipment rental during six weeks of delay while the Department settled certain matters relating to the building site to the satisfaction of the Municipality ..... | \$ 10,088 |
| (2) Expenses and equipment rental during two weeks of delay while waiting for the Department to arrange with the local utilities commission to move transformers located on the site .....    | 4,514     |
| (3) Additional costs incurred when delay occasioned by revision of drainage system made it impractical to use explosives for the excavation of rock .....                                     | 13,420    |
|   | <hr/>     |
|   | \$ 28,022 |



17. A contract was entered into by the Department of Defence Production in the early part of 1954 for the construction of a patrol vessel for the Royal Canadian Mounted Police at a fixed price of \$198,814. Supervision of the construction was undertaken by the Navy. Although the contract provided for completion of the vessel in nine months, delivery did not take place for almost three years. The delay was regarded as being due to circumstances largely beyond the contractor's control, including delays in the preparation of drawings, design changes and priority given to other contracts. The contractor claimed for extra costs resulting from these delays and, during the year under review, he was paid a compensation settlement of \$31,703.

## Summary of Assets and Liabilities

87. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts a statement certified by the Auditor General of "such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

88. The Statement of Assets and Liabilities for the year ended March 31, 1961, with comparable figures at the end of the preceding year, prepared and certified in accordance with the foregoing requirement, is given as Appendix 2 to this report. The Statement was prepared on a modified cash basis, as in previous years, explanations regarding certain aspects of this basis of presentation being included in the Public Accounts, as follows:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule of the statement of assets and liabilities."

### *Assets*

89. The following table lists the assets at March 31, 1961 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1959	March 31, 1960	March 31, 1961
Current assets .....	\$ 910,944,000	\$ 862,147,000	\$ 784,348,000
Advances to the Exchange Fund Account ..	1,995,000,000	1,960,000,000	2,024,000,000
Sinking fund and other investments held for retirement of unmatured debt .....	83,214,000	85,272,000	17,018,000
Loans to and investments in Crown corporations .....	3,271,061,000	3,416,662,000	3,627,733,000
Loans to national governments .....	1,448,960,000	1,414,528,000	1,378,196,000
Other loans and investments .....	683,056,000	934,471,000	1,022,106,000
Securities held in trust .....	20,742,000	30,612,000	30,042,000
Deferred charges—			
Unamortized portion of actuarial deficiencies .....	465,300,000	465,300,000	602,961,000
Unamortized loan flotation costs .....	147,431,000	150,993,000	130,741,000
Suspense accounts .....	2,000	33,000	136,000
Inactive loans and investments .....	92,216,000	93,539,000	94,825,000
<b>Total Assets .....</b>	<b>9,117,926,000</b>	<b>9,443,557,000</b>	<b>9,712,106,000</b>
<i>Less—Reserve for losses on realization of assets .....</i>	<i>516,384,000</i>	<i>546,384,000</i>	<i>546,384,000</i>
<b>Net Assets .....</b>	<b>\$ 8,571,542,000</b>	<b>\$ 8,897,173,000</b>	<b>\$ 9,165,722,000</b>

90. *Current assets.* The balances included under this heading at March 31, 1961, with the comparable balances at the close of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Cash .....	\$ 640,459,000	\$ 565,436,000	\$ 486,760,000
Departmental working capital advances and revolving funds:			
Agricultural commodities stabilization account ..	67,078,000	120,698,000	90,198,000
Defence production revolving fund .....	30,161,000	20,667,000	15,651,000
Other .....	54,743,000	51,615,000	65,234,000
	151,982,000	196,010,000	171,083,000
Securities investment account .....	98,031,000	77,863,000	101,454,000
Other current assets .....	20,472,000	22,838,000	25,051,000
	\$ 910,944,000	\$ 862,147,000	\$ 784,348,000

The decrease of \$30,500,000 in the Agricultural Commodities Stabilization Account at March 31, 1961 compared with the corresponding balance at the end of the preceding year was accounted for by a decrease of \$53,190,000 in the inventory of pork, offset in part by an increase of \$24,707,000 in the inventory of butter held by the Agricultural Stabilization Board.

The \$101,454,000 balance of the Securities Investment Account records, at amortized cost, temporary holdings by the Minister of Finance consisting of securities of Canada, under the authority of section 17 of the Financial Administration Act. These holdings with a par value of \$105,725,000, had a market value of \$99,298,000 at March 31, 1961.

91. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time for the purposes of the Account within the maximum

(\$2,100,000,000 at March 31, 1961) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, c. 315, R.S. The advances to the Account at March 31, 1961 are included in the Statement of Assets and Liabilities at their full amount of \$2,024,000,000. A parenthetical note associated with the item explains that the market value of investments from advances was \$1,869,958,000 at March 31, 1961, indicating an unrecorded deficiency of \$154,042,000.

Comment is made in paragraph 111 regarding the practice of carrying advances to the Exchange Fund Account in the Statement of Assets and Liabilities at the full amount of the advances made, without adjustment for the deficiency that has accumulated over the years.

92. *Sinking fund and other investments held for retirement of unmatured debt.* The following is a summary of the balances comprising this item at March 31, 1961 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Investments held for sinking fund maintained with respect to Newfoundland loans assumed under Terms of Union .....	\$ 14,931,000	\$ 15,960,000	\$ 17,018,000
Additional investment in Newfoundland guaranteed stock held for retirement of Newfoundland loans .....	18,811,000	19,822,000	
Investments held for retirement of loans payable in New York .....	49,472,000	49,490,000	
	<u>\$ 83,214,000</u>	<u>\$ 85,272,000</u>	<u>\$ 17,018,000</u>

During the year under review, the Newfoundland guaranteed stock, other than that held for the sinking fund, was cancelled, as were the holdings of the New York loans, in order to retire those portions of Canada's unmatured debt.

93. *Loans to and investments in Crown corporations.* The following table lists these loans and investments at March 31, 1961 with the comparable balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Central Mortgage and Housing Corporation.	\$ 1,003,576,000	\$ 1,318,683,000	\$ 1,510,711,000
Canadian National Railways .....	1,468,179,000	1,207,808,000	1,092,590,000
The St. Lawrence Seaway Authority .....	282,819,000	315,927,000	339,927,000
National Harbours Board .....	145,632,000	161,398,000	172,770,000
Northern Ontario Pipe Line Crown Corporation .....	113,500,000	121,500,000	123,750,000
Farm Credit Corporation .....	87,219,000	115,700,000	155,754,000
Atomic Energy of Canada Limited .....	58,789,000	59,374,000	60,930,000
Northern Canada Power Commission .....	21,639,000	34,585,000	40,008,000
Polymer Corporation Limited .....	30,000,000	30,000,000	30,000,000
Canadian Overseas Telecommunication Corporation .....	12,979,000	22,590,000	31,686,000
National Capital Commission .....	7,100,000	17,742,000	25,232,000
Other balances .....	39,629,000	41,355,000	44,375,000
	<u>\$ 3,271,061,000</u>	<u>\$ 3,446,662,000</u>	<u>\$ 3,627,733,000</u>



The increase of \$192 million in the amount shown for Central Mortgage and Housing Corporation during the year ended March 31, 1961 is largely accounted for by advances of \$222 million during the year, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, c. 46, R.S., less repayments of \$38 million in respect of advances made under the section in previous years.

The reduction of \$115 million in the amount shown for Canadian National Railways was accounted for by repayments of \$306 million of previous years' advances, offset to the extent of \$170 million by advances to the company under annual Canadian National Railways Financing and Guarantee Acts, and to the extent of \$21 million by a further investment in 4% preferred stock in the company pursuant to section 6 of the Canadian National Railways Capital Revision Act, c. 311, R.S. Of the \$306 million of repayments of previous years' advances, an amount of \$221 million was through the proceeds of sales of the company's bonds to the public.

The increase of \$40 million in the amount for the Farm Credit Corporation was accounted for by further loans of \$39 million under the Farm Credit Act, c. 43, 1959, and by an increase in the capital of the Corporation from \$5 million to \$6.4 million.

94. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1961 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Belgium .....	\$ 41,526,000	\$ 39,219,000	\$ 36,912,000
France .....	160,550,000	152,100,000	143,650,000
India .....	33,000,000	33,000,000	29,546,000
Netherlands .....	84,340,000	79,177,000	74,013,000
United Kingdom .....	1,124,703,000	1,108,287,000	1,091,544,000
Other countries .....	4,841,000	2,745,000	2,531,000
	<u>\$ 1,448,960,000</u>	<u>\$ 1,414,528,000</u>	<u>\$ 1,378,196,000</u>

95. *Other loans and investments.* The balances comprising this asset item at March 31, 1961, with the comparable balances at the end of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Subscriptions to capital of and working capital advances and loans to international organizations .....	\$ 369,916,000	\$ 605,175,000	\$ 631,127,000
Veterans' Land Act advances .....	192,857,000	188,903,000	199,644,000
Less—Reserve for conditional benefits .....	41,857,000	37,277,000	33,552,000
	151,000,000	151,626,000	166,092,000
Loans to provincial governments .....	96,339,000	90,397,000	84,827,000
Loans to Unemployment Insurance Commission ..			67,000,000
Loans to Old Age Security Fund .....		28,001,000	17,283,000
Balances receivable under agreements of sale of Crown assets .....	19,105,000	15,982,000	12,094,000
Other balances .....	46,696,000	43,290,000	43,683,000
	<u>\$ 683,056,000</u>	<u>\$ 934,471,000</u>	<u>\$1,022,106,000</u>

The following is a listing of the balances comprising the \$631,127,000 shown for the first item in the above table as at March 31, 1961:

Subscriptions to capital:	
International Monetary Fund .....	\$ 543,697,000
International Bank for Reconstruction and Development .....	73,680,000
International Development Association .....	8,506,000
International Finance Corporation .....	3,522,000
	<hr/>
	629,405,000
Working capital advances .....	1,722,000
	<hr/>
	\$ 631,127,000
	<hr/>

During the year ended March 31, 1961, Canada's subscription to the International Monetary Fund was increased by \$15,000,000 as a result of revaluation adjustments in the Canadian dollar balance on the basis of the ruling rate of exchange for the United States dollar as at January 31, 1961. The \$8,506,000 subscription to the International Development Association was made during the year.

The \$17,283,000 of loans to the Old Age Security Fund at March 31, 1961 represented the balance of temporary loans made in the preceding year under section 11 of the Old Age Security Act, c. 200, R.S. The following is a summary of the transactions relating to the Fund during the year in comparison with the corresponding amounts for the two previous years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Collections of tax			
On sales .....	\$ 173,623,000	\$ 270,000,000	\$ 270,231,000
On personal incomes .....	146,350,000	185,550,000	229,400,000
On corporation incomes .....	55,328,000	91,336,000	103,500,000
	<hr/>	<hr/>	<hr/>
	375,301,000	546,886,000	603,131,000
Payments of pensions under the Old Age			
Security Act .....	559,280,000	574,887,000	592,413,000
	<hr/>	<hr/>	<hr/>
Surplus or (deficiency) during year .....	<u>(\$183,979,000)</u>	<u>(\$ 28,001,000)</u>	<u>\$ 10,718,000</u>

96. *Securities held in trust.* The \$30,042,000 of balances comprising this item in the Statement of Assets and Liabilities at March 31, 1961 is mainly accounted for by securities held for the following accounts: contractors' securities, \$12,438,000; guarantee deposits in respect of oil and gas permits, \$7,633,000; guarantee deposits in respect of customs duties and excise taxes, \$4,416,000; and pilots' pension funds, \$3,074,000.

97. *Unamortized loan flotation costs.* This item records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1960 .....	\$ 150,993,000
Add: Costs incurred in issuing new loans during the year .....	34,042,000
	<hr/>
	185,035,000
Deduct: Amortization charges included in 1960-61 Expenditure .....	54,294,000
	<hr/>
Balance, March 31, 1961 .....	\$ 130,741,000
	<hr/>

98. *Unamortized portion of actuarial deficiencies.* The amounts appearing under this heading in the Statement represent the extent to which the balances at credit of the Public Service Superannuation Account and the Canadian Forces Superannuation Account—exclusive of the bookkeeping credits referred to in paragraphs 113 and 114—fell short of the estimated actuarial liabilities of the two pension plans, calculated as at December 31, 1957 and March 31, 1958, respectively.

In last year's report, the Audit Office view was put forward that there should be a plan, approved by Parliament, for amortizing the balances of these two actuarial deficiencies (aggregating \$602,961,000 at March 31, 1961, compared with \$465,300,000 at the close of the preceding year) if they are to continue to be carried as "assets" on the Statement and if the offsetting credits are to remain in the two superannuation accounts.

99. *Inactive loans and investments.* The \$94,825,000 shown for this item in the Statement at March 31, 1961 comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act .....	\$ 49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada .....	30,855,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China) .....	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain .....	74,000
	<hr/>
	\$ 94,825,000
	<hr/>

The amount shown for the third item in the above listing is \$1,285,000 greater than the corresponding amount of \$13,185,000 at March 31, 1960 by reason of the final payment, covering \$1,275,000 of principal and \$10,000 of interest, made during 1960-61 under the terms of the guarantee.

### *Liabilities*

100. The following table lists the liabilities at March 31, 1961 by main headings in the Statement of Assets and Liabilities (Appendix 2) in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1959</u>	<u>March 31, 1960</u>	<u>March 31, 1961</u>
Current and demand liabilities .....	\$ 952,560,000	\$ 1,099,057,000	\$ 1,147,561,000
Deposit and trust accounts .....	237,917,000	242,673,000	239,667,000
Annuity, insurance and pension accounts ..	3,301,861,000	3,565,376,000	3,955,510,000
Undisbursed balances of appropriations to special accounts .....	83,387,000	96,620,000	104,493,000
Deferred credits .....	81,429,000	83,961,000	79,073,000
Suspense accounts .....	18,664,000	8,528,000	8,618,000
Unmatured debt .....	15,574,113,000	15,890,152,000	16,067,915,000
	<hr/>	<hr/>	<hr/>
	\$ 20,249,931,000	\$ 20,986,367,000	\$ 21,602,837,000
	<hr/>	<hr/>	<hr/>



101. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1961, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1959	March 31, 1960	March 31, 1961
Non-interest-bearing notes payable to the International Monetary Fund and the International Development Association ..\$	200,000,000	\$ 376,000,000	\$ 383,660,000
Accounts payable .....	256,402,000	245,099,000	221,396,000
Outstanding Treasury cheques .....	247,305,000	228,768,000	251,741,000
Interest accrued .....	124,893,000	137,622,000	154,016,000
Other balances .....	123,960,000	111,568,000	136,748,000
	<u>\$ 952,560,000</u>	<u>\$ 1,099,057,000</u>	<u>\$ 1,147,561,000</u>

102. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1961 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1959	March 31, 1960	March 31, 1961
United States of America .....	\$ 42,205,000	\$ 33,927,000	\$ 36,686,000
Indian trust funds .....	28,651,000	29,224,000	28,516,000
Post Office Savings Bank .....	34,156,000	29,372,000	28,513,000
Contractors' security deposits .....	33,481,000	27,705,000	22,032,000
Deposits by Crown corporations .....	15,330,000	19,269,000	19,400,000
Korean operations pool .....	7,384,000	16,104,000	16,117,000
Contractors' holdbacks .....	18,160,000	17,398,000	15,635,000
Guarantee deposits .....	3,344,000	14,345,000	14,704,000
Canadian Pension Commission (Administration trust fund) .....	9,064,000	10,281,000	10,980,000
Other balances .....	46,142,000	45,048,000	47,084,000
	<u>\$ 237,917,000</u>	<u>\$ 242,673,000</u>	<u>\$ 239,667,000</u>

The \$47,084,000 shown for "other balances" in the above table represents the total of 72 balances including: collections on instalment purchases of Canada savings bonds for public service employees, \$11,845,000; Army Benevolent Fund, \$6,540,000; veterans' trust funds, \$5,808,000; National Harbours Board special accounts, \$5,738,000; deferred pay of Armed Forces personnel, \$2,671,000; National Research Council special fund, \$1,988,000, and War Claims Fund, \$1,584,000.

103. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1961, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1959	March 31, 1960	March 31, 1961
Government annuities .....	\$ 1,105,825,000	\$ 1,156,867,000	\$ 1,199,123,000
Public Service Superannuation Account....	1,136,022,000	1,229,620,000	1,468,848,000
Canadian Forces Superannuation Account..	942,315,000	1,053,011,000	1,155,333,000
Other balances .....	117,699,000	125,878,000	132,206,000
	<u>\$ 3,301,861,000</u>	<u>\$ 3,565,376,000</u>	<u>\$ 3,955,510,000</u>

The following are summaries of the transactions in each of the accounts listed above during the year under review:

Government Annuities:

Balance, April 1, 1960 .....		\$ 1,156,867,000
<i>Add:</i>		
Premiums received .....	\$ 48,877,000	
Interest credits .....	44,584,000	
		<u>93,461,000</u>
		1,250,328,000
<i>Deduct:</i>		
Vested annuity and commuted value payments and refunds .....	50,571,000	
Transfer to Revenue of the excess over Fund valuation.. ..	634,000	
		<u>51,205,000</u>
Balance, March 31, 1961 .....		<u><u>\$ 1,199,123,000</u></u>

Public Service Superannuation Account:

Balance, April 1, 1960 .....		\$ 1,229,620,000
<i>Add:</i>		
Contributions by participants .....	\$ 48,771,000	
Contributions by Government .....	43,283,000	
Interest credits .....	51,254,000	
Credit to adjust to estimated actuarial liability as at December 31, 1957 .....	137,661,000	
Other credits .....	173,000	
		<u>281,142,000</u>
		1,510,762,000
<i>Deduct:</i>		
Annuity payments .....	35,241,000	
Withdrawals of contributions .....	6,319,000	
Other charges .....	354,000	
		<u>41,914,000</u>
Balance, March 31, 1961 .....		<u><u>\$ 1,468,848,000</u></u>

Canadian Forces Superannuation Account:

Balance, April 1, 1960 .....		\$ 1,053,011,000
<i>Add:</i>		
Contributions by participants .....	\$ 31,858,000	
Contributions by Government .....	40,550,000	
Interest credits .....	43,432,000	
Other credits .....	296,000	
		<u>116,136,000</u>
		1,169,147,000
<i>Deduct:</i>		
Annuity payments .....	4,983,000	
Gratuities and withdrawal allowances .....	8,762,000	
Other charges .....	69,000	
		<u>13,814,000</u>
Balance, March 31, 1961 .....		<u><u>\$ 1,155,333,000</u></u>

Comments on the year-end balances shown for the Public Service Superannuation Account and the Canadian Forces Superannuation Account are made in paragraphs 113 and 114 of this report.

Among the other balances included in the item "annuity, insurance and pension accounts" is the uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General—\$17,556,000 at March 31, 1961.

104. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances comprising this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Colombo Plan Fund .....	\$ 59,878,000	\$ 62,966,000	\$ 67,533,000
Railway Grade Crossing Fund .....	22,560,000	31,196,000	34,050,000
National Capital Fund .....	860,000	2,360,000	2,810,000
Other .....	89,000	98,000	100,000
	<u>\$ 83,387,000</u>	<u>\$ 96,620,000</u>	<u>\$ 104,493,000</u>

During the year ended March 31, 1961 an amount of \$50,000,000, provided by Vote 86 under the Department of External Affairs, was credited to the account for the Colombo Plan, while expenditures totalling \$45,433,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$15,000,000, provided under section 265 of the Railway Act and Vote 453 under the Department of Transport, were credited to the account for the Railway Grade Crossing Fund during 1960-61, while expenditures totalling \$12,146,000 were incurred in aiding in the cost of installation of protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1961 an amount of \$3,450,000, provided by Vote 316 under the Privy Council Office, was credited to the account for the National Capital Fund, while amounts totalling \$3,000,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

105. *Deferred credits.* The following is an analysis of this item at the close of the 1960-61 fiscal year and at the close of the two previous years:

	March 31, 1959	March 31, 1960	March 31, 1961
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946 .....	\$ 44,174,000	\$ 44,174,000	\$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority .....	12,819,000	19,427,000	19,427,000
Credits arising from the recording of agreements of sale of Crown assets .....	16,387,000	13,554,000	9,955,000
Equity in agency account of Crown Assets Disposal Corporation .....	6,199,000	5,603,000	4,929,000
Other balances .....	1,850,000	1,203,000	588,000
	<u>\$ 81,429,000</u>	<u>\$ 83,961,000</u>	<u>\$ 79,073,000</u>



106. *Suspense accounts.* The only large balance included in this item on the liabilities side of the Statement of Assets and Liabilities at March 31, 1961 was that of \$4,586,000 at the credit of the Replacement of Materiel Account maintained pursuant to section 11 of the National Defence Act. Amounts credited to the Account during 1960-61 for the proceeds of sales to other countries of "materiel not immediately required" totalled \$3,963,000, while the amounts applied towards the procurement of materiel totalled \$3,000,000. There was accordingly an increase of \$963,000 in the balance of the Account during the year under review.

107. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1961, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1959	March 31, 1960	March 31, 1961
Bonds:			
Payable in Canada .....	\$ 13,777,302,000	\$ 13,563,341,000	\$ 14,002,751,000
Payable in London .....	51,811,000	51,811,000	31,989,000
Payable in New York .....	150,000,000	150,000,000	98,175,000
	13,979,113,000	13,765,152,000	14,132,915,000
Treasury Bills .....	1,595,000,000	2,125,000,000	1,935,000,000
	<u>\$ 15,574,113,000</u>	<u>\$ 15,890,152,000</u>	<u>\$ 16,067,915,000</u>

Of the bonds outstanding at March 31, 1961, the following issues fall due within the succeeding fiscal year:

Loans of May 1, 1958 and October 1, 1959, due May 1, 1961 .....	\$ 300,000,000
Conversion loan of September 1, 1958, due December 1, 1961 .....	770,514,000
Seventh Victory Loan of November 1, 1944, due February 1, 1962 .....	53,473,000
	<u>\$ 1,123,987,000</u>

All of the \$1,935,000,000 of Treasury Bills fell due within 180 days of the close of the fiscal year.

### Net Debt

108. With the Liabilities amounting to \$21,602,837,000 (paragraph 100) and the Assets to \$9,165,722,000 (paragraph 89), the Net Debt at March 31, 1961 was \$12,437,115,000. The following is an analysis of the Net Debt Account for the year under review:

Balance, April 1, 1960 .....	\$ 12,089,194,000
Add—Deficit for the fiscal year 1960-61:	
Expenditure .....	\$ 5,958,061,000
Revenue .....	5,617,640,000
	<u>340,421,000</u>
	12,429,615,000
Add—Write-off of balance of 1957-58 advances to Canadian National Railways .....	7,500,000
Balance, March 31, 1961 .....	<u>\$ 12,437,115,000</u>

The special charge of \$7,500,000 to the Net Debt Account during the year under review, as shown above, clears the balance that had remained of advances made under the Canadian National Railways Financing and Guarantee Act, 1957, when the company's 1957 deficit of \$29,600,000 was recognized to the extent of only \$22,100,000. The reason was that, for the purposes of the settlement then made, the Government had disallowed a supplementary depreciation charge of \$7,500,000 that had been recorded in the company's accounts in recognition of the obsolescence that was occurring as a result of the prospective early retirement of steam locomotives and their replacement by diesel power. The write-off of the balance was provided for by Vote 565, 1960-61.

### Comments on Asset and Liability Items

109. As indicated in paragraph 87, the Statement of Assets and Liabilities required to be included in the Public Accounts by the Minister of Finance, under section 64 of the Financial Administration Act, is required to be certified by the Auditor General. The Statement as at March 31, 1961 has been certified, subject to the comments in the following paragraphs.

110. *Loss on transactions of the Agricultural Products Board.* Included among the current assets, in the item "departmental working capital advances and revolving funds", is a balance of \$4,861,000 representing the net loss sustained in the purchase of agricultural products by this Board during the year under review. Under the authority of the Agricultural Products Board Act, c.4, R.S., the Governor in Council, on May 5, 1960, authorized the Board to purchase whole milk powder as a means of reducing butter production, and the Board thereupon purchased \$7,257,000 worth of the product. This was transferred to the Department of External Affairs for purposes of a donation to an international relief agency. The Department assumed \$2,343,000 of the cost, leaving \$4,914,000 to be borne by the Board. This was offset to the extent of \$53,000 by a net credit resulting from other transactions, leaving the net loss of \$4,861,000 already mentioned.

In the Audit Office view, a parliamentary appropriation should have been sought to authorize the recording of this loss as a charge to Expenditure during the year.

111. *Advances to the Exchange Fund Account.* In paragraph 91 reference is made to the unrecorded deficiency of \$154,042,000 between the advances to the Exchange Fund Account, included in full as an asset in the Statement, and the market value of investments from advances at the year-end. This deficiency represented:

(a) Net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies since establishment of the Exchange Fund Account in 1935 .....	\$ 133,283,000
(b) Exchange loss arising from valuation of United States dollar and gold holdings at the exchange rate of \$0.98 29/32 Can. = \$1 U.S. at March 31, 1961 .....	20,759,000
	<hr/>
	\$ 154,042,000
	<hr/>

In last year's report reference was made to the \$136 million portion of the deficiency as at March 31, 1960 that had accumulated as a result of dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies to that date, and which thus represented a cost of exchange management over the period since the establishment of the Account. The opinion was expressed that the amount should be written off in the accounts of Canada, with parliamentary authority. This matter was considered by the Public Accounts Committee in the course of its 1961 meetings and in its Fifth Report, 1961 (paragraph 78), the Committee recommended:

"that the Minister of Finance be requested to submit to the Committee at the next Session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next Session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings."

112. *Land acquired for development of Cornwall Navigation System.* Included among the balances listed in Schedule "G" supporting the asset item "other loans and investments" in the Statement of Assets and Liabilities is \$1,710,566 for "Land for development of the Cornwall Navigation System". This balance represented the cumulative total of expenditures for the purchase of land in the township of Cornwall, commenced by the Department of Transport in 1955-56 when there was a possibility that the land might be required for the construction of a canal in the township in the event of a decision to complete the St. Lawrence Seaway entirely within Canada. Additional expenditures were incurred during the fiscal years 1956-57 to 1959-60 inclusive, until they totalled in all the \$1,710,566 now standing in the account. The land thus acquired was transferred to The St. Lawrence Seaway Authority on April 1, 1959, with the approval of the Governor in Council, and its value is included among the assets in the balance sheet of the Authority as at December 31, 1960.

Since the expenditures incurred for the canals and other properties that were also transferred to the Authority were written off as Expenditure and are not included as assets in the Statement of Assets and Liabilities, it is the Audit Office view that the balance in the asset account referred to above should now be written off with due parliamentary authority.

113. *Public Service Superannuation Account.* In last year's report mention was made of the fact that the balance of the Public Service Superannuation Account, forming part of the "annuity, insurance and pension accounts" item in the Statement of Assets and Liabilities as at March 31, 1960, included \$139 million that had resulted from a bookkeeping entry made in a previous year, and which had set up an offsetting 'asset' item called "unamortized portion of actuarial deficiency—Public Service Superannuation Account".

In the summary given in paragraph 103 of this report of the transactions in the Public Service Superannuation Account during the year under review, a credit of



\$137,661,000 is shown as having been made to the Account to adjust the balance to the estimated actuarial liability as at December 31, 1957. This bookkeeping credit, added to the \$139 million similarly recorded in the Account previously, has had the effect that the balance of \$1,469 million includes \$276,661,000 which is offset by another item on the Statement. In other words, to this extent the balance did not result from government contributions provided through charges to Expenditure under the authority of section 32 of the Public Service Superannuation Act or appropriations (see also paragraph 59).

In the Audit Office view, as was mentioned in last year's report—as well as in earlier reports—the Account should have been credited (in addition to amounts contributed by participants) only with amounts provided for by section 32 of the Public Service Superannuation Act or by appropriations, the actuarial deficiency at the year-end being disclosed simply by means of a footnote to the Statement.

114. *Canadian Forces Superannuation Account.* In last year's report it was noted that the balance shown in the Statement of Assets and Liabilities as at March 31, 1960 included \$326,300,000 that had resulted from a bookkeeping credit made in the preceding year, with a corresponding charge being made to the offsetting 'asset' account entitled "unamortized portion of actuarial deficiency—Canadian Forces Superannuation Account".

As in the case of the Public Service Superannuation Account, and as mentioned in last year's report, it is the Audit Office view that amounts (additional to contributions by members of the Forces) should be credited to the Account only as provided for by section 24 of the Canadian Forces Superannuation Act or by appropriations (see also paragraph 59).

115. *R.C.M.P. Benefit Trust Fund.* The balance at the credit of this Fund, included in the liability item "deposit and trust accounts", was \$284,162 at March 31, 1961. The Fund was operated for many years under legislation which preceded the enactment of the Royal Canadian Mounted Police Act, c.54, 1959, and is now operated under that Act, section 23 of which provides that all moneys accruing to members of the Force through the medium of fines, proceeds of forfeitures and seizures, fees, costs, etc., and all gifts and bequests to the Force, if converted into money, shall be paid to the Benefit Trust Fund. The section further provides that the Fund shall be used:

- "(a) for the benefit of members and former members and their dependents, as the Governor in Council may prescribe;
- (b) for the making of loans to members of the force; and
- (c) as a reward, grant or compensation to any person who assists the force in the performance of its duties in any case where the Minister is of opinion that such person is deserving of recognition for the service rendered."

Originally the Fund was used principally as a means whereby the Force could look after cases of distress among its members and their dependents. For many years, however, it has been used mainly for the distribution of an annual amount to each member of the Force. Thus, \$194,355 of the total payments of \$195,441 that were made from

the Fund during the year ended March 31, 1961 was distributed equally among the members in the amount of \$35 each. Although the amount is small in relation to salary payments, reference is made to the matter because it appears doubtful that the legislation contemplates that the Fund be used to supplement the pay of members of the Force in this way.

We have been informed that it is the intention to utilize the Fund in future for the purpose of making interest-free loans and grants for the benefit of the members.

116. *Unemployment Insurance Fund.* It was mentioned in last year's report that the Unemployment Insurance Commission is not required by statute to prepare annual financial statements subject to audit. In its Fifth Report, 1961 (paragraph 82) the Public Accounts Committee took note of this and recommended

"that the preparation of such statements, along the lines of those published at page P-19 of the Public Accounts for 1959-60, be made a statutory responsibility of the Commission, and that they be required to be reported upon by the Auditor General".

The financial statements of the Commission for the year ended March 31, 1961, comprising a balance sheet and a statement of revenue and expenditure, are given in the Public Accounts (Volume II, page 17-15). The balance sheet thus published shows a balance of \$184,685,000 at the credit of the Fund as at March 31, 1961, after absorbing a \$181,207,000 excess of expenditure over revenue for the year. Assets of the Fund included investments in Government of Canada and Canadian National Railways bonds, carried in the accounts at an amortized cost of \$245,166,000. The market value of these securities at the year-end was, however, only \$205,751,000, representing a potential loss to the Fund of \$39,415,000. At the year-end, bonds with an amortized value of \$82,478,000 were pledged as security for loans of \$67 million from the Department of Finance.

In his budget speech on June 20, 1961 the Minister of Finance stated that "the entire portfolio of the Unemployment Insurance Fund will in due course be taken over by the Treasury at book values, and in exchange the fund will acquire interest-bearing but non-marketable bonds which may be redeemed by the government as required on thirty days' notice".

The following is a summary of the expenditure and revenue of the Fund for the year ended March 31, 1961 in comparison with the corresponding amounts for the two previous fiscal years:

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Expenditure:			
Benefit payments .....	\$ 478,631,000	\$ 415,234,000	\$ 513,906,000
Interest on advances from the Minister of Finance .....		1,517,000	403,000
	<u>478,631,000</u>	<u>416,751,000</u>	<u>514,309,000</u>

	<u>1958-59</u>	<u>1959-60</u>	<u>1960-61</u>
Revenue:			
Contributions from employers and employees ..	185,487,000	228,616,000	275,273,000
Contributions by Government of Canada .....	37,097,000	45,723,000	55,055,000
Other receipts .....	21,773,000	16,907,000	10,043,000
Less: Loss on sale of securities .....	10,115,000	8,414,000	7,269,000
	<i>11,658,000</i>	<i>8,493,000</i>	<i>2,774,000</i>
	<u>234,242,000</u>	<u>282,832,000</u>	<u>333,102,000</u>
Excess of expenditure over revenue, representing decrease in balance at credit of the Fund .....	\$ 244,389,000	\$ 133,919,000	\$ 181,207,000

In last year's report an outline was given of the broadened coverage which had been effected over the years and the resultant decrease in emphasis on insurance principles recognized when the Unemployment Insurance Fund was first established. Failure to make provision for increased contributions commensurate with the additional cost of seasonal benefits was also noted as contributing to the decline in the Fund's balance. During the year under review, no changes were made in the Act or Regulations to alter the conditions outlined in last year's report.

Aware of an apparent increase in the number of improper claims and abuses to which the Fund was being subjected, the Commission increased its investigation-enforcement staff during the year by over 50%, to a total of 122, with considerable effect. Penalties imposed on claimants for false or misleading statements numbered 30,044 compared with 16,851 in the preceding year.

The Public Accounts Committee, in its Fifth Report, 1961 (paragraph 81) recommended "that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field". A moderate increase has taken place, and is continuing, in the number of field examinations made by the Audit Office of regional and local offices of the Unemployment Insurance Commission.

### Crown Corporations

117. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting".

118. Section 87 of the Financial Administration Act requires the auditor of an agency or a proprietary Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the relative corporation, and the report is required to state whether, in the auditor's opinion:

"(a) proper books of account have been kept by the corporation;



- (b) the financial statements of the corporation
  - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
  - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
  - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation."

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

119. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

120. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1961:

<u>Corporation</u>	<u>Reporting Minister</u>
<i>Agency corporations:</i>	
Atomic Energy of Canada Limited .....	Veterans Affairs
Canadian Arsenal Limited .....	Defence Production
Canadian Commercial Corporation .....	Defence Production
Canadian Patents and Development Limited .....	Veterans Affairs
Crown Assets Disposal Corporation .....	Defence Production
Defence Construction (1951) Limited .....	Defence Production
The National Battlefields Commission .....	Northern Affairs and National Resources
National Capital Commission .....	Public Works
National Harbours Board .....	Transport
Northern Canada Power Commission .....	Northern Affairs and National Resources
Park Steamship Company Limited .....	Transport

<u>Corporation</u>	<u>Reporting Minister</u>
<i>Proprietary corporations:</i>	
Canadian Broadcasting Corporation .....	National Revenue
Canadian National (West Indies) Steamships Limited ...	Transport
Canadian Overseas Telecommunication Corporation .....	Transport
Cornwall International Bridge Company Limited .....	Transport
Eldorado Aviation Limited .....	Trade and Commerce
Eldorado Mining and Refining Limited .....	Trade and Commerce
Export Credits Insurance Corporation .....	Trade and Commerce
Farm Credit Corporation .....	Agriculture
Northern Transportation Company Limited .....	Trade and Commerce
Polymer Corporation Limited .....	Defence Production
The St. Lawrence Seaway Authority .....	Transport
Northern Ontario Pipe Line Crown Corporation .....	Trade and Commerce

121. The accounts of the following Crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

	<u>Reporting Minister</u>
Bank of Canada .....	Finance
Canadian National Railways .....	Transport
The Canadian National Railways Securities Trust .....	Transport
The Canadian Wheat Board .....	Agriculture
Central Mortgage and Housing Corporation .....	Public Works
Industrial Development Bank .....	Finance
Trans-Canada Air Lines .....	Transport

122. The paragraphs that follow treat, in turn, with the various Crown corporations audited by the Auditor General. An introductory comment describes briefly the origin and nature of the activity and is followed by: comments regarding the Crown's equity in the corporation, noting any change during the year; a summary of the operations for the financial year in comparison with the preceding year; and any other matter which it is felt might be of interest to the House of Commons.

### *Agency Corporations*

123. Agency corporations are responsible, in general, for the management of procurement, construction, service or disposal activities on behalf of the Crown.

124. *Atomic Energy of Canada Limited.* This company was incorporated in 1952 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, c.11, R.S., for the purpose of carrying out research and development in nuclear power technology and allied fields and to promote the uses of atomic energy.

The head office of the company is located in Ottawa and its operations are conducted at Chalk River and Deep River, Ontario, where nuclear reactors and laboratories are maintained. A commercial products division, located in Ottawa, is responsible for

the sale of beam therapy units, radioactive isotopes and other allied products. At the close of the year the company had two nuclear power stations under construction, one a demonstration project at Rolphton, Ontario, and the other a large generating station at Douglas Point, Ontario. Plans for the engineering and development of the nuclear power plants under construction are being prepared at an office located in Toronto, in co-operation with the Hydro-Electric Power Commission of Ontario. Plans are under way for the establishment of additional research and development facilities in Manitoba.

The Crown's equity in the undertaking totalled \$62,255,000 at March 31, 1961, which compared with the position at the end of the previous year as follows:

	As at March 31	
	1961	1960
Loans for housing .....	\$ 5,730,000	\$ 5,374,000
Loan for construction of generating station .....	1,205,000	
Capital stock .....	54,000,000	54,000,000
Retained earnings .....	1,320,000	1,695,000
	<u>\$62,255,000</u>	<u>\$61,069,000</u>

Although the company's research program is principally financed by parliamentary appropriations, these are supplemented to a certain extent by transfers from earnings retained from commercial operations, etc., as shown in the following summary of income and expense for the past two years:

	Year ended March 31	
	1961	1960
<u>Research Program—Operating</u>		
Expense		
Research and development .....	\$ 8,477,000	\$ 7,955,000
Operation of research facilities .....	1,943,000	1,690,000
Engineering services .....	4,852,000	4,352,000
Nuclear power plant .....	4,674,000	1,668,000
Administration .....	2,893,000	2,791,000
Other expenses .....	1,583,000	1,591,000
	<u>24,422,000</u>	<u>20,017,000</u>
Income: Gross income from housing, hospital, transportation, etc...	1,324,000	1,436,000
	<u></u>	<u></u>
Excess of expense over income .....	<u>\$23,098,000</u>	<u>\$18,611,000</u>
Provided for by:		
Parliamentary appropriation .....	\$23,110,000	\$19,583,000
Less: Unexpended balance refundable to the Government of Canada .....	12,000	972,000
	<u>\$23,098,000</u>	<u>\$18,611,000</u>



	Year ended March 31	
	1961	1960
<u>Research Program—Capital</u>		
Expense: Construction of building and acquisition of equipment....	\$16,120,000	\$11,527,000
Provided for by:		
Parliamentary appropriation .....	\$15,081,000	\$10,797,000
Retained earnings .....	1,039,000	730,000
	<u>\$16,120,000</u>	<u>\$11,527,000</u>
<u>Commercial Operations</u>		
Income		
Sales .....	\$ 3,402,000	\$ 2,929,000
Rentals, etc. ....	291,000	225,000
	<u>3,693,000</u>	<u>3,154,000</u>
Expense		
Cost of sales, etc. ....	2,163,000	1,538,000
Research and development .....	274,000	218,000
Selling .....	669,000	558,000
Administrative .....	348,000	315,000
	<u>3,454,000</u>	<u>2,629,000</u>
Excess of income over expense, credited to retained earnings .....	<u>\$ 239,000</u>	<u>\$ 525,000</u>

The sale of material irradiated in the NRU reactor, and the related costs, are subject to a classified international agreement and are therefore not reflected in the above summary.

Research operating expense increased by \$4,375,000 during the year ended March 31, 1961 over the preceding year, largely accounted for by the following increases: salaries and welfare benefits, \$1,092,000; professional and special services, \$737,000; and contract expenditures, \$2,332,000. The increase in professional and special services is largely attributable to the payment of \$522,000 for engineering services in connection with the power reactor at Douglas Point. Contract expenditures increased principally by reason of additional contracts with industry for development and engineering studies.

The management approved inventory write-downs totalling \$282,000 during the year in stocks of radium, actinium, beam therapy units and other materials, having regard for prevailing market conditions and the unfavourable rate of turnover of the items.

The undepreciated cost of plant and property as shown on the company's balance sheet at March 31, 1961 was \$34,368,000. At that time, recovery of the capital cost through depreciation of the company's NRU reactor amounting to approximately \$25 million was dependent on terms of the renewal of a classified agreement then under negotiation. It is now known that the terms of the agreement will not provide for any further recovery of depreciation costs and therefore the undepreciated value of the reactor will have to be written off.

125. *Canadian Arsenals Limited*. Canadian Arsenals Limited was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, c.18, 1944. Among the objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment. In fulfilment of these responsibilities, the company is also charged with the maintenance of physical facilities and manufacturing skills in such a manner as to enable it to extend operations on short notice.

The company is the custodian of nine government-owned plants constructed prior to or during World War II, with eight maintained partially in a stand-by condition and one now idle. The total cost of all plants was in excess of \$100 million.

At March 31, 1961 the company's operations were financed by advances of \$11,162,000 from the Department of National Defence in respect of orders placed, advances of \$6,000,000 from the Defence Production Revolving Fund (reduced from \$7,500,000 at March 31, 1960) and advances of \$7,500,000 from the Minister of Finance for working capital purposes.

Funds are provided by parliamentary appropriations to meet capital requirements for equipment, construction and improvements. The capital budget for 1960-61 totalled \$282,000, with actual capital expenditures amounting to \$237,000. The unexpended balance of \$45,000 drawn down in excess of actual expenditures was refunded to the Receiver General of Canada in May 1961.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1961	1960
Income		
Sales .....	\$21,275,000	\$25,049,000
Miscellaneous .....	518,000	432,000
	<u>21,793,000</u>	<u>25,481,000</u>
Expense		
Cost of sales—including indirect labour and other overhead expenses absorbed .....	18,395,000	20,966,000
Indirect labour and other overhead expenses not absorbed in cost of sales .....	5,438,000	5,754,000
Administrative expenses .....	879,000	821,000
	<u>24,712,000</u>	<u>27,541,000</u>
Excess of expense over income .....	<u>\$ 2,919,000</u>	<u>\$ 2,060,000</u>

There has been a steady decline in sales over the past seven years, from \$81 million for the year ended March 31, 1955 to \$21 million for the year ended March 31, 1961. This decline in activity and in sales, coupled with the company's obligation to maintain the government-owned plants in partial stand-by condition, has necessitated funds being annually appropriated by Parliament towards the cost of administration and operation of the company over the past several years. During the year under review, a total of

\$2,849,000 was appropriated for this purpose, \$1,349,000 by Vote 73 of the Main Estimates and \$1,500,000 by Vote 509 of Further Supplementary Estimates (2).

Overhead expenses for the year totalled \$11,803,000, of which \$6,365,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, namely \$5,438,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

The net working capital of the company decreased by \$1,589,000, from \$14,138,000 at March 31, 1960 to \$12,549,000 at March 31, 1961. This decrease was occasioned largely by the refund of \$1,500,000 to the Defence Production Revolving Fund already referred to. During the year inventories of raw materials, work-in-process and finished goods were reduced by \$4,579,000, or 21%, from their level at March 31, 1960.

It was noted during the course of the audit that funds considerably in excess of current operating requirements were deposited during the year in a non-interest-bearing bank account, and the recommendation has been made to the board of directors that such surplus funds be invested in short-term securities to the extent that they are not used to reduce further the advances from the Defence Production Revolving Fund.

It was also noted that a cheque for \$46,444 in favour of the Receiver General of Canada, received in February 1961, remained undeposited until November. We were informed that the reason for this was that the amount of the remittance could not be reconciled with the balance in the company's records of a deposit with a supplier, and the officer involved held the view that to deposit the cheque would be an acknowledgment that the remittance was accepted in full settlement of the account. In our view, the cheque should have been deposited promptly upon its receipt and the amount credited to a suspense account pending reconciliation of the accounts.

Another point was that under agreements which the company has with the Department of Defence Production for the storage of materials, the company paid \$10,295 to the Department covering reimbursement for a shortage of materials which developed between August 1954 and October 1959, when a physical examination revealed this discrepancy which could not be accounted for.

In November 1960 a firm of management consultants was engaged by the Department of Defence Production, with Treasury Board authority, to undertake a study of the organization of Canadian Arsenals Limited, the efficiency and cost of its manufacturing operations and various other aspects of its activities. We understand that the final report of the management consultants has not yet been submitted.

126. *Canadian Commercial Corporation.* This corporation was established in 1946 under the Canadian Commercial Corporation Act, now c.35, R.S., its basic function being the provision of procurement services in Canada for the governments of other countries and for international organizations. The corporation's main customer is the



United States Government, but a considerable volume of purchasing of Canadian-made goods is carried out on behalf of the Department of Trade and Commerce in connection with Colombo Plan projects. The corporation's head office is in Ottawa, with a branch office in Washington.

The Crown's equity in the corporation at the year-end consisted of \$7,000,000 of working capital advances (an increase of \$1,000,000 during the year) together with a surplus account balance of \$811,000. At the year-end the corporation's agency account showed \$2,045,000 for obligations to principals, representing advances from various governments and international organizations.

The following is a comparative summary of the income and expense of the corporation for the past two years:

	Year ended March 31	
	1961	1960
Income		
Purchase surcharges .....	\$ 159,000	\$ 136,000
Interest earned .....	55,000	74,000
Exchange gain .....	50,000	17,000
Other income .....	5,000	
	<u>269,000</u>	<u>227,000</u>
Expense		
Salaries and living allowances .....	283,000	235,000
Other expense .....	75,000	59,000
	<u>358,000</u>	<u>294,000</u>
Net loss .....	<u>\$ 89,000</u>	<u>\$ 67,000</u>

The audit report to the Minister of Defence Production for the year ended March 31, 1960 referred to certain advances having been made to a supplier, in excess of those normally provided, to enable a project to be completed, and mentioned that repayment of the advances would be dependent on settlement of a claim for contract adjustment made by the corporation to its customer. During the year under review, an over-all settlement was effected with the customer and an increased contract value was negotiated with the supplier sufficient to cover the advances. As a result, no loss has been suffered by the corporation except for interest on advances to the supplier, amounting to \$137,500, waiver of which was approved by the board of directors.

As already indicated, a substantial portion of the corporation's purchasing is carried out on behalf of the United States Government. Under a reciprocal agreement with the United States, no surcharges are levied on this business. Income from surcharges on other business, although slightly higher in the year ended March 31, 1961 than in the preceding year, has declined in recent years to the point where successive annual losses have been experienced which have had to be absorbed by the accumulated surplus of prior years. As it is anticipated that this situation will continue, the board of directors has recommended that an arrangement be sought whereby annual losses would be made good from funds appropriated by Parliament.

127. *Canadian Patents and Development Limited.* Section 17 of the Research Council Act, c.239, R.S., provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Pursuant to this authority, Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of developing and making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the company, whose head office is in Ottawa, are also available to government departments, publicly supported institutions and universities. The staff of four at March 31, 1961 consisted of employees of the Council, which is reimbursed for their services.

The Crown's equity in the company at March 31, 1961 amounted to \$311,000, consisting of \$296,000 of capital stock and surplus of \$15,000.

A comparative summary of the company's income and expense for the past two years follows:

	Year ended March 31	
	1961	1960
Income		
Royalties, licensing fees, etc. ....	\$ 191,000	\$ 180,000
Less: Costs of licensing rights and related technical assistance, etc. ....	29,000	118,000
	162,000	62,000
Other income .....	11,000	10,000
	<u>173,000</u>	<u>72,000</u>
Expense		
Salaries .....	26,000	12,000
Patent attorneys' fees and other patent expenses .....	29,000	27,000
Awards to inventors .....	13,000	5,000
Other expenses .....	13,000	6,000
	<u>81,000</u>	<u>50,000</u>
Net profit .....	\$ <u>92,000</u>	\$ <u>22,000</u>

The decrease of \$89,000 during the year under review in the costs of licensing rights and related technical assistance, etc., was largely due to the termination of certain contracts for aircraft and engines under which the proceeds of licences were required to be remitted to the United Kingdom patent holders. The corresponding reduction in income is not reflected in the above summary because the increased income from other sources more than compensated for the reduction.

128. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the War Assets Corporation, and a 1949 amendment to the Act provided that thereafter the corporation was to be known as Crown Assets Disposal Corporation. With certain specified exceptions, the corporation is responsible for the disposal of the

surplus assets of all government departments and most of the Crown corporations and other agencies. In addition, agreements have been entered into for the disposal of surplus United Kingdom and United States property located in Canada. The head office of the corporation is in Ottawa and sales offices are maintained in a number of other Canadian cities.

During the past two years the corporation was authorized to retain 4% of the net proceeds of sales and other moneys received from sales of land and buildings, and 10% of the net proceeds of all other sales and of other income to meet its administrative costs. The following is a comparative summary of the income and expense for the past two years:

	Year ended March 31	
	1961	1960
<b>Income</b>		
Percentage of net proceeds of sales made and of other income earned, etc. ....	\$ 810,000	\$ 738,000
<b>Expense</b>		
Salaries .....	451,000	435,000
Employees' welfare benefits .....	42,000	42,000
Rent .....	40,000	43,000
Telephones, telegrams and postage .....	29,000	28,000
Printing, stationery and office supplies .....	27,000	24,000
Travel .....	15,000	14,000
Other expenses .....	12,000	19,000
	616,000	605,000
Excess of income over expense .....	\$ 194,000	\$ 133,000

A general salary increase during the year more than offset the savings effected by a staff reduction of eight persons.

In 1959 the corporation was directed, pursuant to section 81 of the Financial Administration Act, to pay to the Receiver General from time to time, but at intervals of not longer than six months, all of the surplus in its general account in excess of \$100,000. Consequently, the \$194,000 excess of income over expense for the year under review has been paid to the Receiver General, leaving the surplus balance at the level of \$100,000.

The equity of the Government of Canada in the corporation's agency account was \$4,929,000 at March 31, 1961 compared with \$5,657,000 at the end of the preceding year. To the extent of \$4,692,000 the former amount was represented by receivables under long-term interest-bearing sales agreements.

A comparative summary of the transactions in the agency account during the past two years follows:



	Year ended March 31	
	1961	1960
Proceeds from sales, etc.:		
Government of Canada .....	\$ 7,908,000	\$ 7,393,000
Other principals .....	1,471,000	1,012,000
Interest earned .....	198,000	233,000
	<hr/> 9,577,000	<hr/> 8,638,000
Less: Direct costs relating to sales .....	55,000	90,000
	<hr/> 9,522,000	<hr/> 8,548,000
Deduct:		
Percentage of net proceeds from sales, etc., retained by the corporation	810,000	738,000
Remittances to:		
Receiver General of Canada .....	8,118,000	7,500,000
Others .....	1,368,000	863,000
	<hr/> 9,486,000	<hr/> 8,363,000
	<hr/> 10,296,000	<hr/> 9,101,000
Reduction in equity of the Government of Canada and others .....	\$ 774,000	\$ 553,000

In the report made to the Minister of Defence Production under section 87 of the Financial Administration Act on June 16, 1961, covering the examination of the accounts of the corporation for the fiscal year ended March 31, 1961, it was pointed out that during the year a firm of management consultants, retained by the management, had completed an examination of the operations of the corporation. As a result of this examination, a number of recommendations designed to effect operating economies were submitted to and accepted by the management. These were put into effect progressively during the year and, as is indicated above, while the volume of business handled showed an increase over the preceding year, expenses remained approximately the same.

129. *Defence Construction (1951) Limited.* This company was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority contained in section 7 of the Defence Production Act, now c. 62, R.S. It is responsible for awarding and supervising contracts for defence construction. The head office is in Ottawa and there are branches at other cities in Canada and an overseas office in Paris.

Since the company makes no payments in connection with the construction contracts it awards and supervises, no provision is required for working capital other than for its net expenditure which is financed by means of annual parliamentary appropriations.

Payments on the contracts supervised by the company are made principally by the Comptroller of the Treasury out of funds provided for the purpose by annual appropriations for the Department of National Defence, and amounted to \$89 million in 1960-61 compared with \$103 million in the preceding year.

The following is a summary of the financial results for the year under review compared with those of the preceding year:

	Year ended March 31	
	1961	1960
Expense		
Salaries and living allowances .....	\$ 2,479,000	\$ 2,508,000
Travel and removal .....	244,000	258,000
Employees' welfare benefits .....	176,000	165,000
Other expenses .....	265,000	276,000
	<u>3,164,000</u>	<u>3,207,000</u>
Income		
Reimbursement for engineering and administrative services .....	133,000	154,000
Other income .....	1,000	2,000
	<u>134,000</u>	<u>156,000</u>
Net expenditure .....	<u>\$ 3,030,000</u>	<u>\$ 3,051,000</u>

130. *The National Battlefields Commission.* The National Battlefields Commission was constituted in 1908 by the National Battlefields at Quebec Act, c. 57, 1908, with the object of acquiring and preserving the historic battlefields at Quebec. The Commission comprises nine members, seven of whom are appointed by Governor in Council and one by each of the provinces of Ontario and Quebec.

Considerable portions of the lands which were already vested in the Crown for military and other public purposes were transferred to the Commission at the time of its constitution. Other lands were subsequently acquired from time to time with the approval of Parliament as required by the Act. Prior to 1958, the cost of buildings, driveways, landscaping, equipment, etc., was met from grants by the Government of Canada under the Act which created the Commission. Since 1958 the Commission has been financed by means of annual parliamentary appropriations. At March 31, 1961 the Crown's equity in the Commission totalled \$1,445,000 represented by capital assets of \$1,426,000 and working capital of \$19,000.

At the year-end the Commission had cash and Government of Canada bonds to the total of \$27,000 in its custody representing the balance of funds contributed, in the years immediately following the constitution of the Commission, by provincial governments, municipalities and others. These funds are held exclusively for the acquisition of land and furthermore may not be used for this purpose without prior approval of Parliament. Save for the increase due to interest earnings, the balance in the account has remained undisturbed for thirty years.

A summary of the expenses for the year compared with the previous year follows:

	Year ended March 31	
	1961	1960
Administrative salaries .....	\$ 12,000	\$ 11,000
Operating wages .....	123,000	126,000
Provision for professional services .....	5,000	2,000
Operating supplies and nursery stock .....	9,000	9,000
Heat, light and power .....	11,000	10,000
Other expenses .....	11,000	10,000
	<hr/>	<hr/>
	171,000	168,000
Capital outlays .....	22,000	3,000
	<hr/>	<hr/>
	\$ 193,000	\$ 171,000
	<hr/>	<hr/>

The capital outlays during the year were principally for the purpose of providing a parking area for tourists.

In the year under review, the expenses of the Commission were financed as follows:

Parliamentary appropriation (Vote 275) .....	\$ 178,099
Special reserve fund .....	13,500
Interest from investments .....	519
Surplus .....	1,163
	<hr/>
	\$ 193,281
	<hr/>

The amount of the Special Reserve Fund at March 31, 1960, namely \$13,500, represented the accumulation of annual provisions of \$1,500 over the years to meet any losses arising from fire, accident or any other eventuality. In view of the fact that financial requirements were to be provided by annual appropriations in future, the Commission was advised by the Treasury Board that no further amounts should be allocated to this reserve and was directed to use the amount accumulated in this fund to supplement the moneys provided by Parliament during the year under review.

The City of Quebec levies a snow removal tax based on the assessed value of land. Commencing in 1955, the City has billed the Commission for this snow removal tax annually and at March 31, 1961 these charges had totalled over \$400,000. Since the Commission regards the battlefield as a park and therefore not taxable in this way, it has lodged appeals against these assessments. In the meantime, no provision for these levies has been recorded in the accounts of the Commission.

131. *National Capital Commission.* This Commission was established by the National Capital Act, c.37, 1958, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission under the Act are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of



Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; the right to undertake joint projects with municipalities or make grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission as at March 31, 1961 totalled \$61,431,000, represented by: unexpended balance of loans, \$684,000; inventories of tools, equipment and supplies, \$205,000; payments for land purchases under negotiation, \$1,167,000; and capital assets, \$59,375,000.

The Commission's activities are financed by annual parliamentary appropriations, drawings from the National Capital Fund and loans from the Government of Canada, apart from incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1961	1960
Administration of the Commission, and operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull .....	\$ 2,117,000	\$ 1,897,000
Provided for by:		
Parliamentary appropriations .....	\$ 1,911,000	\$ 1,737,000
Revenue .....	206,000	160,000
	<u>\$ 2,117,000</u>	<u>\$ 1,897,000</u>
<u>National Capital Fund</u>		
Balance of Fund in hands of Commission at beginning of year .....	\$ 521,000	\$ 345,000
Add:		
Amounts drawn from Fund provided by parliamentary appropriations .....	3,000,000	2,500,000
Proceeds from sales of land .....	193,000	77,000
	<u>3,193,000</u>	<u>2,577,000</u>
	<u>3,714,000</u>	<u>2,922,000</u>
Deduct:		
Expenditures—		
Capital outlays for parks, parkways, removal of railway tracks, etc. ....	2,259,000	1,806,000
Maintenance of land and rehabilitation works .....	92,000	56,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges and sewers ....	1,362,000	539,000
	<u>3,713,000</u>	<u>2,401,000</u>
Balance of Fund in hands of Commission at end of year .....	<u>\$ 1,000</u>	<u>\$ 521,000</u>

	Year ended March 31	
	1961	1960
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year .....	\$ 450,000	\$ 641,000
Add:		
Government of Canada loans (net) .....	7,489,000	10,642,000
Proceeds of sale of property .....		68,000
	<u>7,489,000</u>	<u>10,710,000</u>
	7,939,000	11,351,000
Deduct:		
Expenditures for acquisition of property .....	7,255,000	10,901,000
	<u>7,255,000</u>	<u>10,901,000</u>
Unexpended balance of loans at end of year .....	\$ 684,000	\$ 450,000
	<u>684,000</u>	<u>450,000</u>
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans .....	\$ 1,097,000	\$ 590,000
	<u>1,097,000</u>	<u>590,000</u>
Provided for by:		
Parliamentary appropriation .....	940,000	457,000
Net revenue from rentals of property and interest earnings .....	157,000	133,000
	<u>1,097,000</u>	<u>590,000</u>

The Commission's capital budget for the year 1960-61 was approved by Order in Council P.C. 1960-504 of April 13, 1960 and a revised capital budget was approved by Order in Council P.C. 1960-1700 of December 14, 1960. We have drawn attention to the fact that neither of these approved capital budgets appears to have been laid before Parliament as required under section 80 of the Financial Administration Act.

The approved revised budget stipulated that expenditure on any of the items detailed therein should not exceed by more than 10% the amount for each, without further approval, and total expenditure should not exceed \$10,750,000 for land acquisitions and \$2,361,000 for construction projects. During the course of our examinations it was noted that expenditures on five items exceeded these limits as follows:

<u>Construction projects</u>	<u>Budget plus 10%</u>	<u>Expenditure</u>
Leamy Lake Parkway .....	\$ 11,000	\$ 16,199
Construction of curbs along parkways .....	33,000	36,709
Park improvements in vicinity of Dow's Lake .....	27,500	28,921
Landscaping along the Queensway .....	44,000	64,059
Improvements to farm properties in the Greenbelt .....	27,500	36,527

In this connection, a further revised capital budget was submitted on March 6, 1961 but was not approved for the reason that it reached the Privy Council Office after the end of the fiscal year. Had this revision been approved, all expenditures except those for Leamy Lake Parkway would have been within the limits of the budget.

In paragraph 62 of this report, reference is made to interest paid by the Commission out of funds provided to it by means of annual parliamentary appropriations.

132. *National Harbours Board.* This Board was established in 1936 under the National Harbours Board Act, now c.187, R.S., and has jurisdiction over the harbours

of Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal and Vancouver, together with responsibility for the administration, management and control of Churchill harbour and the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1960 totalled \$421,091,000, comprising: value of assets transferred to the Board, \$56,923,000; loans and advances for capital expenditures and retirement of debt, \$279,262,000; interest in arrears on loans and advances, \$59,008,000; and reserve for replacement of capital assets and other reserves, \$93,459,000—less an accumulated deficit of \$67,561,000. During the year under review, additional advances were made to a total of \$12,193,000, compared with \$17,719,000 in the previous year.

The following is a comparative summary of the operations of the Board for its past two financial years:

	Year ended December 31	
	1960	1959
Operating income		
Harbours .....	\$ 2,946,000	\$ 2,868,000
Wharves and piers .....	8,822,000	7,220,000
Grain elevator systems .....	7,104,000	7,064,000
Cold storage systems .....	1,078,000	1,153,000
Permanent sheds .....	1,779,000	1,391,000
Railway systems .....	810,000	829,000
Jacques Cartier Bridge .....	3,354,000	2,355,000
Miscellaneous services .....	1,246,000	1,326,000
	<u>27,139,000</u>	<u>24,206,000</u>
Operating and administrative expenses		
Harbours .....	3,409,000	2,999,000
Wharves and piers .....	1,081,000	759,000
Grain elevator systems .....	5,229,000	4,527,000
Cold storage systems .....	1,104,000	1,092,000
Permanent sheds .....	1,457,000	1,187,000
Railway systems .....	1,189,000	1,191,000
Jacques Cartier Bridge .....	658,000	639,000
Miscellaneous services .....	1,469,000	1,481,000
Administrative expenses .....	1,838,000	1,723,000
	<u>17,434,000</u>	<u>15,598,000</u>
Net operating income .....	9,705,000	8,608,000
Other income		
Income from investments .....	2,476,000	2,223,000
Miscellaneous .....	178,000	121,000
	<u>2,654,000</u>	<u>2,344,000</u>
	<u>12,359,000</u>	<u>10,952,000</u>
Special charges		
Provision for interest on loans and advances .....	8,596,000	7,925,000
Provision for replacement of capital assets .....	4,139,000	3,403,000
Other special charges .....	300,000	219,000
	<u>13,035,000</u>	<u>11,547,000</u>
Net loss .....	<u>\$ 676,000</u>	<u>\$ 595,000</u>



The increase in operating and administrative expenses during the year was mainly due to an increase of \$1,253,000 in expenses recorded at the Montreal harbour. This consisted largely of expenses of a non-recurring nature, including: extensive repairs and alterations to the exterior concrete walls of grain elevator No. 2, \$422,000; replacement of four passenger elevators, \$126,000; major wharf repairs, \$100,000; and repairs to grain elevator No. 3, \$81,000.

The liability item for "contractors' security and other deposits" on the Board's balance sheet as at December 31, 1960 includes rentals amounting to \$115,000 collected over many years for certain areas at Coal Harbour, Vancouver. The ownership of the areas in question has been in dispute between the Board and the Canadian Pacific Railway Company since the Board's inception in 1936—and between the Board's predecessor and the railway company since 1880. It is understood that the C.P.R. is, for its part, holding in escrow the sum of \$197,000. The matters in dispute have been considered by the Department of Justice going as far back as 1894, and were actively considered in 1904 and 1918 but without a final solution. The dispute appears as far from being settled today as it was in 1880.

When the Board took over the administration, management and control of Churchill harbour on January 1, 1937, the books of the harbour recorded a balance of \$4,446,000 as "sundry expenditure—undistributed", and this balance has been included in the capital assets listed on the Board's annual balance sheet ever since. So far as can be determined, no part of the amount represents direct costs incurred in acquiring existing capital assets. It appears to be in the nature of indirect or overhead expenses, and since the balance is not represented by actual assets, we have suggested to the Board that consideration be given to writing it off.

In 1947 authority was sought and obtained from the Governor in Council to cancel accumulated interest arrears due to the Government of Canada in the amount of \$44,790,000. During the period from 1948 to 1960, interest arrears have increased by \$32,468,000 and principal of loans by \$101,249,000. As a result, the total indebtedness to the Government of Canada appearing on the balance sheet of the National Harbours Board at March 31, 1961 was as follows:

Loans and advances for capital expenditure and retirement of debt .....	\$ 279,262,000
Interest in arrears on loans and advances .....	59,008,000
	<hr/>
	\$ 338,270,000
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As there appears little prospect of the Board being in a position to meet principal and interest obligations of this magnitude on the basis of the present level of its operations, we are of the opinion that consideration should be given to reconstituting its financial structure on a more realistic basis. Actually, the governmental accounts do not reflect the full amount of the liability appearing on the Board's balance sheet. The asset item "loans to and investments in Crown corporations" as at March 31, 1961 includes only the loans, totalling \$172,770,000, in respect of the revenue-producing harbours of Montreal, Three Rivers and Vancouver, and includes no amount for interest in arrears.

133. *Northern Canada Power Commission.* The Northwest Territories Power Commission was established by Act of Parliament in 1948, which Act, upon amendment in 1956, became the Northern Canada Power Commission Act, c.42, 1956 and changed the name of the Commission to the Northern Canada Power Commission. The Commission, whose head office is in Ottawa, consists of three members appointed by the Governor in Council.

The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users within the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Act requires that the rates charged for power must provide sufficient revenue to cover interest and loan repayments, as well as operating and maintenance expenses.

The Commission operates hydro-electric plants at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations at Fort Smith, Fort Simpson, Inuvik, Fort McPherson and Frobisher Bay, N.W.T., and at Field, B.C. The plant at Fort McPherson is operated for the account of the Department of Northern Affairs and National Resources and the one at Frobisher Bay is rented from the Department of Transport.

The Act provides that the Government of Canada may make advances to the Commission for the purpose of capital expenditure and also for investigation of projects. During the year the Commission received \$1,225,000 (net) in the form of advances for capital expenditure, and repaid \$569,000. At March 31, 1961 advances for capital expenditure, including accrued interest, amounted to \$26,684,000 and for investigation of projects, to \$50,000. Other equity of the Government of Canada in the Commission consisted of surplus, \$562,000; reserve for extension, expansion and improvements, \$212,000; and reserve for contingencies, \$1,310,000.

The Commission also acts in the capacity of an agent of the Government of Canada for loans made under the Atlantic Provinces Power Development Act, c.25, 1957-58. As of March 31, 1961, these loans, made to the provincial power commissions of Nova Scotia and New Brunswick, totalled \$14,246,000.

A comparative summary of income and expense for the last two years follows:

	Year ended March 31	
	1961	1960
Income		
Sales of power .....	\$ 2,559,000	\$ 2,240,000
Sales of steam and water heat .....	321,000	191,000
Miscellaneous .....	140,000	76,000
	<u>3,020,000</u>	<u>2,507,000</u>

	Year ended March 31	
	1961	1960
Expense		
Operating expense .....	1,137,000	834,000
Maintenance .....	91,000	72,000
Administrative .....	178,000	156,000
Interest on advances from the Government of Canada .....	498,000	507,000
Provision for depreciation (equivalent to annual repayment of advances from the Government of Canada) .....	569,000	548,000
	<u>2,473,000</u>	<u>2,117,000</u>
Net income .....	<u>\$ 547,000</u>	<u>\$ 390,000</u>

The increase of \$319,000 in sales of power was due to increased consumer demand which, we were informed, had warranted installation of additional generating capacity at Snare, Fort Smith, Fort Simpson, Frobisher Bay and Inuvik, and reflects a full year's operation for plants which became operational late in the preceding year. The income from steam and water heat increased by \$130,000 due to increased sales of the Inuvik plant which went into operation part way through 1960 but which reflects a full year's operation for 1961. Much of the increase in expenses was due to the increased operational activity during the year.

Our report to the Commission last year stressed the need for substantial improvements in accounting and collection procedures. A number of the recommendations with respect to accounting have been implemented but we have advised the Commission again this year that greater emphasis should be placed on keeping the recording of transactions on a current basis. For example, stores accounting vouchers and salary distribution summaries should be processed at regular intervals. In addition, there should be a routine monthly review of outstanding accounts receivable accompanied by a systematic procedure for sending out collection notices. The management has advised us that steps are being taken to deal with these points.

134. *Park Steamship Company Limited.* This company, incorporated in 1942 under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels, ceased actual operations when the "Park Fleet" was sold in 1946-47. Its current activities, limited to the settlement of occasional claims for compensation by seamen for injuries sustained during the operating period, are attended to by the Canadian Maritime Commission.

### *Proprietary Corporations*

135. Proprietary corporations are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.



136. *Canadian Broadcasting Corporation.* This Corporation was established by the Canadian Broadcasting Act, c.24, 1936, later superseded by the Broadcasting Act, c.22, 1958. The Corporation operates the national broadcasting service and administers the international shortwave service. Its head office is located in Ottawa with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver.

Funds for the operating requirements of the Corporation, in excess of income from advertising revenue, are derived from parliamentary appropriations. Parliament likewise appropriates funds for the Corporation's capital requirements, including the replacement of existing capital assets.

The Crown's equity in the Corporation stood at \$38,872,000 at March 31, 1961 compared with \$34,232,000 at the end of the previous year. The equity was increased by a \$3,000,000 advance provided by parliamentary appropriation during the year, increasing the Corporation's working capital from \$6,000,000 to \$9,000,000. This advance, which is interest-free, was made to assist the Corporation in financing its inventory position and is subject to review by the Treasury Board from time to time.

Net operating requirements for the year of \$59,288,000 (exclusive of depreciation of \$3,577,000 charged for cost ascertainment purposes) were provided for by Vote 41, Appropriation Act No. 6, 1960 in the amount of \$62,085,000, the unexpended portion of \$2,797,000 drawn down being refunded to the Receiver General. The following is a summary of the operating results for the past two years:

	Year ended March 31	
	1961	1960
Expense		
Cost of production and distribution .....	\$94,714,000	\$88,337,000
Selling and general administration .....	6,239,000	5,703,000
	<hr/>	<hr/>
Total expense, including depreciation .....	100,953,000	94,040,000
Advertising income, etc. ....	38,088,000	38,564,000
	<hr/>	<hr/>
Net expense .....	\$62,865,000	\$55,476,000
	<hr/>	<hr/>

Slightly over half of the increase shown above in the Corporation's total expense for the year was due to increases in salaries and related expenses, including the employment of an additional 351 employees. The remainder of the increased requirement and the increased salary expense for newly engaged personnel were due to a slight increase in broadcasting hours, extension of television and radio networks to improve coverage, operating costs of a new television station, a full year's operating costs of a station opened during the previous year and increased coverage by the Corporation's northern radio service.

A summary of the engineering and program production inventories, together with the prepaid film and script rights at March 31, 1961, compared with corresponding figures at March 31, 1960, is as follows:

	As at March 31		Increase
	1961	1960	(Decrease)
Engineering, stationery and production supplies .....	\$ 2,185,000	\$ 2,007,000	\$ 178,000
Program production in progress .....	2,129,000	1,335,000	794,000
Prepaid film rights .....	1,809,000	2,705,000	(896,000)
Prepaid script rights .....	173,000	121,000	52,000
	<u>\$ 6,296,000</u>	<u>\$ 6,168,000</u>	<u>\$ 128,000</u>

The increase in program production in progress is largely due to increased use of the videotaping process. The decrease in prepaid film rights reflects a tightening up in commitment procedures and reduction in terms for which rights were acquired. The amounts shown as at March 31, 1961 are after recording the following write-offs:

Engineering, stationery and production supplies .....	\$ 95,000
Programs completed or in progress .....	53,000
Film and script rights written down, expired and written off .....	242,000
	<u>\$ 390,000</u>

There was also written off during the year a net book loss of \$221,000 on the retirement of capital assets originally purchased at a cost of \$390,000.

Capital requirements of the Corporation during the year totalled \$5,584,000 and were provided under Vote 42, Appropriation Act No. 6, 1960 in the amount of \$7,647,000, the unexpended portion of \$2,063,000 being refunded to the Receiver General.

During the last two years, \$964,000 was expended in connection with the proposed consolidation of facilities in Toronto and Montreal. The estimate of the cost of the proposed consolidation for Toronto, Montreal and Ottawa is set forth in summary form in the Minutes of Proceedings of the Special Committee on Broadcasting (Appendix B of No. 27 of June 7, 1961, page 804) and amounts to \$46,560,000 during the five year period ending March 31, 1966, together with \$26,986,000 required subsequently to complete the projects, a total of \$73,546,000. An estimated cost of the projects of \$69,335,000, approved by the board of directors on October 30, 1959, was submitted to the Minister of National Revenue and the Minister of Finance in accordance with section 35(2) of the Broadcasting Act on November 6, 1959.

In our report to the board of directors covering our examination of the Corporation's accounts for the year ended March 31, 1960, we drew the attention of the board to various weaknesses in the system of internal control and made recommendations designed to correct these weaknesses. At the same time we suggested to the board that a useful purpose might be served by having the Corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office.

In the course of our examination this year we found that a number of the matters previously noted had been remedied, whilst the suggested study of the Corporation's organizational structure is being currently undertaken by the Royal Commission on Government Organization.

Other matters remaining under review at this time include the effective functioning of the newly formed internal audit section and the importance of more effective stores control. These points, together with others noted during the course of our examination for the year, have been directed to the attention of the board of directors.

137. *Canadian National (West Indies) Steamships Limited*. This company, which was incorporated in 1927 under the Companies Act, c. 79, 1906, ceased operations in 1958 on the sale of its then remaining eight vessels to Cuban interests.

The fleet was sold for \$2,800,000, terms of settlement calling for a cash payment of \$560,000 and five equal annual instalments of \$448,000 each with interest at 5% on the unpaid balance. The cash payment and the first two instalments have been received leaving a balance of \$1,344,000, excluding accrued interest, outstanding at December 31, 1960, representing the three remaining instalments due in 1961, 1962 and 1963.

The management of the company, formerly undertaken by officers of the Canadian National Railways, was transferred to departmental officers in May 1960, and the head office moved from Montreal to Ottawa.

The company is in the process of winding up, and on November 24, 1960 it declared a dividend amounting to \$1,789,000 to be paid to the Receiver General of Canada. The remaining equity of the Crown at December 31, 1960 amounted to \$3,877,000, representing the following net assets:

Balance due under agreement of sale of vessels and accrued interest .....	\$ 1,369,000
Investment in bonds, at cost, and accrued interest .....	1,176,000
Deposit with Receiver General of Canada .....	1,325,000
Cash on hand .....	21,000
	<hr/>
	3,891,000
Less matured bonds unclaimed .....	14,000
	<hr/>
	<u>\$ 3,877,000</u>

The bonds unclaimed are bearer bonds of the company's issue of 25-year 5% bonds guaranteed by the Government of Canada, which matured on March 1, 1955.

138. *Canadian Overseas Telecommunication Corporation*. This Corporation was established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now c.42, R.S., section 6 of which sets out the purposes, namely, to establish, maintain and operate external telecommunication services for the conduct of public communications; to carry on the business of public communications; to improve the efficiency of telecommunication services generally; and to co-ordinate Canada's external telecommunication services with those of other parts of the Commonwealth.



In 1950 the Corporation acquired the telecommunication facilities in Canada of Cable and Wireless Limited and Canadian Marconi Company Limited which provided cable and radio-telegraph circuits between Canada, the United Kingdom, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services with the United Kingdom, Newfoundland and the West Indies. Subsequent developments have included: participation with the United Kingdom and the United States in the laying of a trans-Atlantic telephone cable; providing, in a joint undertaking with the United Kingdom, for a new submarine cable between the two countries; and entering into a joint commonwealth project for the construction of a trans-Pacific cable system between Canada and Australia via New Zealand.

At March 31, 1961 the Crown's equity in the Corporation amounted to \$35,639,000, comprising \$31,686,000 of advances for capital purposes, together with an accumulated surplus of \$3,953,000.

Funds are provided by parliamentary appropriations to meet capital requirements for equipment construction and improvements. The capital budget of the Corporation for the year under review, approved by the Governor in Council, totalled \$18,591,000, whereas actual capital expenditures in the year amounted to \$10,200,000 of which a net amount of \$9,097,000 was advanced by the Crown.

The following tabulation summarizes the income and expense of the Corporation during the past two years:

	Year ended March 31	
	1961	1960
<b>Income</b>		
Telephone and telegraph .....	\$ 3,954,000	\$ 3,673,000
Circuit rentals .....	2,161,000	1,000,000
Program transmission, facsimile, delivery and pick-up and telex ..	892,000	879,000
Miscellaneous income .....	266,000	226,000
	<u>7,273,000</u>	<u>5,778,000</u>
<b>Expense</b>		
Salaries, wages, employee benefits .....	2,163,000	2,082,000
Rental of circuits, etc. ....	949,000	864,000
Operation, maintenance and repairs—buildings, plant and equipment	540,000	407,000
Interest .....	517,000	372,000
Provision for depreciation .....	1,056,000	628,000
Other expense .....	310,000	296,000
	<u>5,535,000</u>	<u>4,649,000</u>
Less: Estimated amount recoverable from Commonwealth Network..	953,000	757,000
	<u>4,577,000</u>	<u>3,892,000</u>
Profit before income tax .....	2,696,000	1,886,000
Provision for income tax .....	1,332,000	938,000
Net profit .....	<u>\$ 1,364,000</u>	<u>\$ 948,000</u>

The income increase of almost \$1,500,000 in the year ended March 31, 1961 was largely the result of increased circuit rentals arising out of the rental of a new cable which came into service on October 1, 1960.

The Corporation does not maintain detailed cost records which would allow a comparison of the revenue from individual traffic operations with the related operating costs for the purpose of measuring operating efficiency and profitability.

During the course of our examination, we noted certain weaknesses in the system of internal control which have been brought to the attention of the management of the Corporation and suggestions were made regarding the remedial measures that might be taken. It was also suggested that, in view of the increasing size and complexity of the Corporation's operations, consideration should be given to the establishment of an internal audit section.

139. *Cornwall International Bridge Company Limited.* This company operates a toll bridge system over the St. Lawrence River between Cornwall and Rooseveltown, N.Y. The company was incorporated in 1949 under the Companies Act, 1934, to operate a roadway on railroad bridges that had been leased from two railway companies. These railroad bridges were acquired by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a wholly-owned United States government corporation) in connection with the construction of the Seaway, and are being replaced by two high-level highway bridges, one of which has been completed. The outstanding stock of the bridge company was purchased jointly by the Seaway entities from the private shareholders in 1957 for \$480,000, of which \$200,000 was paid by the Authority. The shares of the company are owned equally by the two Seaway entities with the Corporation's shares being held in trust by the Authority.

Each Seaway entity is represented by four directors on the board of the bridge company. By agreement between the Authority and the Corporation, the annual revenues of the bridge company are applied in the following order of priority:

1. In payment of all operating, administrative and general expenses of the bridge company.
2. In amortization of the costs of constructing the North Channel bridge by the Authority, plus interest, over a period of fifty years. Any amount due under this provision which is not paid is to be recorded as a liability of the bridge company to be paid prior to any distribution of future revenues.
3. The balance to be distributed on a fifty-fifty basis between the Authority and the Corporation.

A comparative summary of the operations of the company for its past two financial years follows:

	Year ended September 30	
	1960	1959
Income		
Bridge tolls .....	\$ 333,000	\$ 315,000
Other .....	4,000	5,000
	<u>337,000</u>	<u>320,000</u>

	Year ended September 30	
	1960	1959
Expense		
Salaries and wages .....	41,000	35,000
Maintenance and repairs .....	25,000	37,000
Municipal taxes and grants .....	12,000	16,000
Other expenses .....	47,000	29,000
	<hr/> 125,000	<hr/> 117,000
Provision for amortization of cost of North Channel bridge, owned by The St. Lawrence Seaway Authority .....	56,000	
	<hr/> 181,000	<hr/> 117,000
Fee for management, use of right-of-way over bridges, etc., payable to The St. Lawrence Seaway Authority (50% in trust for the Saint Lawrence Seaway Development Corporation) .....	\$ 156,000	\$ 203,000

The decrease of \$12,000 in the cost of maintenance and repairs for the year ended September 30, 1960, notwithstanding additional snow removal costs, was due to a non-recurring expense of approximately \$22,000 having been incurred in the preceding year.

The provision of \$56,000 for amortization of the cost of the North Channel bridge, over 50 years at 4% interest, is based on construction costs incurred by the Authority to September 30, 1959 which, with interest, amounted to \$1,202,000. We were informed that the cost of the bridge may exceed \$7,000,000 when it is completed early in 1962, and in this event the annual amount required for amortization will be of the order of \$325,000. As this sum is approximately the amount of the company's present annual income, substantial deficits can presumably be expected in future years unless there is a considerable increase in traffic.

The shareholders' equity in the company as at September 30, 1960 totalled \$110,000, comprising \$50,000 of capital stock and a surplus of \$60,000. This equity is likely to be reduced by a capital loss of over \$59,000 in 1962 if, as is anticipated by the management, certain of the assets of the company in the form of buildings, roads and the bridge are abandoned or given to municipalities when the Authority has completed construction of the new North Channel bridge, and when the State of New York has completed its highway crossing over the Raquette River.

The accounts of the company are maintained by The St. Lawrence Seaway Authority and periodic test examinations are made by the Authority's internal auditors.

140. *Eldorado Aviation Limited.* Eldorado Aviation Limited is a wholly-owned subsidiary of Eldorado Mining and Refining Limited, incorporated in 1953 under the Companies Act. Operating from its headquarters in Edmonton, the company provides air transportation services exclusively on behalf of Eldorado Mining and Refining Limited and Northern Transportation Company Limited, which share the cost of operations on a cost-per-ton mileage basis.



The equity of Eldorado Mining and Refining Limited in the company at December 31, 1960 totalled \$363,000, consisting of a loan, \$107,000; capital stock, \$28,000; and surplus, \$228,000. The loan is being repaid by means of annual payments equivalent to the provisions for aircraft depreciation.

The following is a comparative summary of the expenses of the company for its past two financial years:

	Year ended December 31	
	1960	1959
Salaries and wages .....	\$ 225,000	\$ 224,000
Supplies .....	238,000	264,000
Provision for depreciation .....	107,000	153,000
Repairs .....	99,000	107,000
Insurance .....	65,000	66,000
Contributions to employees' pension plan .....	63,000	48,000
Other expenses .....	95,000	100,000
	<u>\$ 892,000</u>	<u>\$ 962,000</u>

The expenses for 1960 were reimbursed to the extent of \$787,000 by Eldorado Mining and Refining Limited and \$105,000 by Northern Transportation Company Limited.

The reduction shown above in the provision for depreciation resulted from the use of rates applied on the reducing balance method, the rate in the case of aircraft being 40%. The contributions to the employees' pension plan include \$40,000 in each year towards the cost of additional benefits to employees in respect of past service which arose when the parent company introduced a new pension plan in 1959. A balance of \$80,000 of the \$160,000 cost remains to be amortized over the next two years.

Capital additions during the year ended December 31, 1960 totalled \$101,000 while write-offs and disposals of capital assets amounted to \$55,000. The Order in Council approving the company's capital budget for the year stipulated that expenditures in respect of each of the items provided for could exceed the amount shown by not more than 10%, without further approval, provided that the total expenditures did not exceed \$105,000. It was noted in the course of the audit that the actual expenditures incurred for aircraft parts, \$18,379, exceeded the \$10,000 amount approved by \$8,379 without the approval of the Governor in Council having been obtained.

141. *Eldorado Mining and Refining Limited.* Eldorado Mining and Refining Limited was incorporated in 1945 under the Companies Act, 1934, following the expropriation in 1944 by the Government of the shares of the former privately owned company originally incorporated in 1927 as Eldorado Gold Mines Limited.

The principal functions of the company are to produce, refine and sell or dispose of uranium and other allied products. In 1948 it was also charged with the responsibility for the purchase and disposal of all uranium produced in Canada although, in recent years, private producers have been free, under certain circumstances, to sell uranium without reference to the company. The head office of the company is in Ottawa. The mine operations are now confined to the property located in the vicinity of Uranium City,

Saskatchewan, as the original mine at Port Radium, N.W.T., was closed in September 1960 on the exhaustion of its ore bodies. The company also operates a uranium refinery at Port Hope, Ontario.

The authorized capital of the company is 110,000 shares of no par value, of which 70,500 have been issued. With the exception of the seven qualifying shares issued to the directors, all shares are registered in the name of the Minister of Trade and Commerce. The Crown's equity in the company at December 31, 1960 was \$51,845,000, comprising capital stock, \$6,586,000, and surplus, \$45,259,000. During the year dividends of \$4,935,000 were paid to the Receiver General of Canada.

The net profit for the year ended December 31, 1960 was \$3,474,000 and arose, in comparison with the net profit of \$4,134,000 for the preceding year, as follows:

	Year ended December 31	
	1960	1959
Income		
Sales of uranium concentrates and revenue from refining services ..	\$36,186,000	\$37,797,000
Miscellaneous income .....	637,000	616,000
	<u>36,823,000</u>	<u>38,413,000</u>
Expense		
Mining, refining and other expenses .....	18,926,000	18,698,000
Purchased ores and concentrates .....	413,000	2,471,000
Provision for depreciation .....	3,876,000	6,346,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer .....	5,068,000	
Amortization of pre-production, mine development and other deferred expenditures .....	766,000	1,341,000
Reduction in valuation of inventories .....	1,600,000	
Cost of additional benefits in respect of past service, arising on establishment of new pension plan for employees .....		1,043,000
	<u>30,649,000</u>	<u>29,899,000</u>
	6,174,000	8,514,000
Provision for income tax .....	2,700,000	4,380,000
Net income .....	<u>\$ 3,474,000</u>	<u>\$ 4,134,000</u>

Although gross income from sales of uranium concentrates was \$1,103,000 greater than the previous year, this increase was more than offset by the decline in revenue from refining services, due partly to the lower number of pounds refined and partly to a reduction in the unit return on refining.

Included in mining, refining and other expenses are costs of \$197,000 associated with the shutdown and loss on disposal of materials at Port Radium.

The decrease of \$2,058,000 in purchased ores and concentrates is largely explained by the company having re-acquired concentrates to the value of \$1,638,000 in 1959 from the United States Atomic Energy Commission, for metal conversion—a transaction which had no counterpart in 1960.

The reduction of \$2,470,000 in the provision for depreciation was due mainly to (a) reduction in the rate of write-off on the Beaverlodge assets by reason of the extension of the amortization period upon acquisition of the rights to deliver concentrates of another

producer, (b) no provision being made for certain uranium salt and metal production plants which were idle throughout 1960, and (c) no provision being required in respect of Port Radium assets for which full provision for depreciation had been attained in the previous year.

In March 1960 the company negotiated the cancellation of a contract under which another uranium producer was to deliver to Eldorado a quantity of concentrates which the company was committed, under a parallel agreement, to sell to the United States Atomic Energy Commission. This enabled the company to fulfil the balance of the other producer's commitment out of production from its own ore body and thus guarantee the extension of the production period of its Beaverlodge mine. The cost of the cancellation was slightly in excess of \$19 million and is being amortized pro rata on the basis of the total poundage which then remained to be supplied out of the Beaverlodge mine. After amortizing \$5,068,000 in the year, \$14 million remained to be amortized by September 1964.

The reduction from \$1,341,000 in 1959 to \$766,000 in 1960 in the amortization of pre-production and mine development expenses was also occasioned by the extension of the amortization period arising on acquisition of the rights to deliver concentrates of the other producer.

There were certain reductions in valuation of inventories in the current year which had no counterpart in 1959. A summary follows:

Port Hope uranium metal and miscellaneous products .....	\$ 927,000
Port Radium leach plant, commissary and general stores .....	639,000
Peace River Sawmill stores and supplies .....	34,000
	<hr/>
	\$ 1,600,000
	<hr/>

The object of these adjustments was to reduce the value of the relative inventories to estimated realizable values. In addition, a provision of \$205,000 was made for the possible obsolescence of stores at the Beaverlodge mine. The company proposes to provide \$200,000 annually until a full reserve is set up for slow-moving and obsolete stores having an original cost value of approximately \$1,100,000.

The cost of additional benefits in respect of past service arising on establishment of the new pension plan for employees, totalling \$1,043,000 in 1959, represented a non-recurring expense for which there was no similar charge in 1960.

During the year under review, the company procured from other producers and sold at cost to the United States Atomic Energy Commission and to the United Kingdom Energy Authority uranium concentrates valued at \$234 million.

A study of the organization and internal controls of the company and its two wholly-owned subsidiaries, Eldorado Aviation Limited and Northern Transportation Company Limited, was completed during the year by a firm of management consultants whose reports have been made available to the Audit Office. Most of the essential recommendations contained in these reports have been implemented and the remainder are in process of implementation or are under consideration.



142. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, c.105, R.S., to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, the Governor in Council may, under section 21 of the Act, authorize the Corporation to enter into the proposed contract of insurance. In the event of a loss under this section (and there have been none), the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. A 1959 amendment to the Act enables the Governor in Council, through the Corporation, to provide financing for long term export sales of capital goods out of unappropriated moneys in the Consolidated Revenue Fund. A number of applications to finance such transactions were under consideration at the year-end. The Corporation's head office is in Ottawa with branch offices in Montreal and Toronto.

The Crown's equity in the Corporation at December 31, 1960 was \$15,746,000, consisting of share capital of \$5,000,000, capital surplus of \$5,000,000 and earned surplus of \$746,000, together with an underwriting reserve of \$5,000,000. All of these funds, as well as deferred premium income of \$892,000, were invested in Government of Canada bonds having a par value of \$16,350,000.

The following is a comparative summary of transactions for the past two years:

	Year ended December 31	
	1960	1959
Income		
Premiums earned .....	\$ 756,000	\$ 673,000
Expense		
Salaries and benefits .....	192,000	177,000
Travel .....	15,000	16,000
Other .....	43,000	42,000
	250,000	235,000
	506,000	438,000
Policyholders' claims		
Payments .....	520,000	176,000
Recoveries .....	436,000	335,000
	84,000	(159,000)
Excess of premium income over expense and policyholders' claims ....	422,000	597,000
Add: Interest on investments .....	626,000	567,000
	1,048,000	1,164,000
Deduct:		
Transfer to underwriting reserve .....	95,000	1,164,000
Provision for income tax .....	207,000	
	302,000	1,164,000
Surplus for year, transferred to earned surplus account .....	\$ 746,000	—

The following is a summary of transactions during the year in respect of policy-holders' claims for losses:

Type of claim	Outstanding Jan. 1, 1960	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1960
Insolvency .....	\$ 150,000	\$ 134,000	\$ 5,000	\$ 10,000	\$ 269,000
Default .....	157,000	176,000	33,000	28,000	272,000
Exchange transfer .....	2,178,000	210,000	398,000	1,000	1,989,000
Other .....	1,000				1,000
	<u>\$ 2,486,000</u>	<u>\$ 520,000</u>	<u>\$ 436,000</u>	<u>\$ 39,000</u>	<u>\$ 2,531,000</u>

In the course of our examinations of claims paid, we noted that part of the evidence supporting some claims by one exporter for accounts overdue more than one year consisted of photostatic copies of accepted drafts drawn by the exporter's agent, and that there was a similarity in handwriting in the signatures of different buyers. At our suggestion, some of the photostatic copies of the drafts were sent to the R.C.M.P. for examination by a handwriting expert and the Canadian Commercial Counsellor in the buyer's country was asked to contact a number of the buyers to see if they admitted owing the amounts shown on outstanding drafts purportedly signed by them. Since completing our audit for the year, we have been informed that as a result of these enquiries the agent has admitted having collected the money for which claims were made for non-payment. The exporter has been asked to refund \$70,000 in claims paid on the evidence of the apparently forged documents.

Of the amount of \$2,531,000 in claims shown above as outstanding as at December 31, 1960, the Corporation anticipates making substantial recoveries, particularly in respect of those claims amounting to \$1,989,000 which were paid because of exchange transfer difficulties in the buyers' countries.

The liability of the Corporation under the contracts of insurance issued and outstanding as at December 31, 1960 totalled \$174,914,000 (1959, \$159,117,000) of which \$110,067,000 (1959, \$98,956,000) was for contracts entered into under section 21 of the Act, which, as previously mentioned, provides that all moneys required to discharge the liabilities arising under such contracts are payable to the Corporation by the Minister of Finance out of unappropriated moneys in the Consolidated Revenue Fund.

143. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, c. 43, 1959, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branch offices and 151 field offices (jointly operated with the Veterans' Land Act administration) throughout Canada.

At March 31, 1961 the equity of the Government of Canada in the Corporation amounted to \$163,186,000, comprising: capital, \$6,400,000; loans, \$149,354,000; accrued interest on loans, \$3,896,000; and reserve for losses \$3,536,000. During the year under review the Government paid the Corporation \$1,400,000 to increase its capital and advanced a further net \$38,654,000 by way of loans.

During the year, 5,162 loans were made to farmers to a total of \$52,305,000, and repayments amounted to \$11,015,000. Loans outstanding at the year-end, including accrued interest, amounted to \$162,426,000 compared with \$120,152,000 at the end of the previous year.

During the past two years the Corporation has borrowed from the Government of Canada \$38,500,000 at an interest rate of 5% and \$30,800,000 at 5½%. This money was loaned to farmers at a rate of 5% which is the rate set by section 16 (c) of the Farm Credit Act. It is estimated that during the period of repayment the Corporation will suffer a loss of \$3,000,000 on the \$30,800,000 that was borrowed at 5½% and loaned at 5%. In addition to the interest loss, these interest rates provide no margin to meet administrative expenses and losses on loans.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1961	1960
<b>Income</b>		
Interest earnings .....	\$ 6,655,000	\$ 5,044,000
Deduct: Interest on loans from the Government of Canada .....	5,452,000	3,751,000
	<hr/>	<hr/>
	1,203,000	1,293,000
Appraisal and legal fees .....	377,000	112,000
	<hr/>	<hr/>
	1,580,000	1,405,000
<b>Expense</b>		
Salaries and employee benefits .....	1,213,000	816,000
Fees and expenses of outside appraisers .....	173,000	101,000
Office accommodation .....	117,000	69,000
Travel .....	107,000	69,000
Printing, stationery and office supplies .....	89,000	43,000
Postage, express, telephone and telegraph .....	40,000	22,000
Other .....	44,000	45,000
	<hr/>	<hr/>
	1,783,000	1,165,000
	<hr/>	<hr/>
Net loss (profit) carried to reserve for losses .....	\$ 203,000	\$ (240,000)

The increase of \$618,000 in expenses for the year ended March 31, 1961 resulted largely from the growth in lending activity and reorganization of the Corporation from a staff of 183 at March 31, 1960 to 308 at March 31, 1961. The full effect of this will appear in the accounts for the next year when the Corporation anticipates that administrative expenses will rise by a further \$500,000.

In June 1960 the Toronto branch of the Corporation moved to larger quarters in order to accommodate increased staff. The Corporation was unsuccessful in its efforts to terminate a five-year lease on the premises vacated, the unexpired portion of which runs to July 31, 1963 at a monthly rental of \$825. The cost of the unused space amounted to \$10,300 up to July 16, 1961 when the premises were sublet at a rental of \$400 per month.



144. *Northern Transportation Company Limited*. This company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Originally incorporated under an Alberta charter in 1935, the shares of the company were acquired when the Government expropriated the capital stock of Eldorado Mining and Refining Limited in 1944. Northern Transportation Company (1947) Limited was subsequently incorporated under the Companies Act, 1934, to take over the business and undertaking of the Alberta company, and in 1952 the corporate name was changed to Northern Transportation Company Limited. The company operates a transportation system as a common carrier on the Mackenzie River water system.

The equity of Eldorado Mining and Refining Limited in the company amounted to \$5,774,000 as at December 31, 1960, comprising capital stock of \$152,000, surplus of \$5,122,000, and reserve for marine insurance of \$500,000.

The following is a comparative summary of the operations of the company for its past two financial years:

	Year ended December 31	
	1960	1959
Income		
Freight earnings .....	\$ 2,728,000	\$ 3,737,000
Miscellaneous income .....	151,000	110,000
	<u>2,879,000</u>	<u>3,847,000</u>
Expense		
Operating expenses .....	1,817,000	2,259,000
Provision for depreciation .....	704,000	768,000
Administrative expenses .....	293,000	260,000
	<u>2,814,000</u>	<u>3,287,000</u>
Operating profit .....	65,000	560,000
Special contribution to employees' pension plan .....		400,000
Provision for income tax .....	5,000	76,000
Net profit .....	<u>\$ 60,000</u>	<u>\$ 84,000</u>

The \$1,000,000 reduction in freight earnings in 1960 was principally the result of the shutdown of the parent company's mining operations at Port Radium, N.W.T., and the closing of a number of mines in the vicinity of Uranium City. The \$442,000 decline in operating expenses during the year reflected this decrease in operating activity. The special contribution of \$400,000 to the employees' pension plan in 1959 represented the cost of additional benefits in respect of past service, resulting from the establishment by the parent company of a new pension plan for employees.

In the interests of reducing overhead expenses, the company decided to allow its commercial insurance coverage on marine equipment to lapse during the year under review, at the same time increasing its own internal reserve for marine insurance from \$100,000 to \$500,000 by the transfer of \$400,000 from surplus account. The full amount of the reserve is funded and invested in short-term deposits.

145. *Polymer Corporation Limited*. This company was incorporated in 1942 under the Companies Act, 1934, in accordance with the provisions of section 6 of the Department of Munitions and Supply Act, c.3, 1939, as amended by c.31, 1940. The company manufactures synthetic rubber and chemicals at its plant in Sarnia, where its head office is also located.

The equity of the Crown at December 31, 1960 amounted to \$64,600,000, consisting of capital stock of \$30 million and surplus of \$34,600,000. During the year under review, dividends of \$3,000,000 were paid to the Receiver General of Canada.

During the year a study company, Polymer Corporation (France) S.A.R.L., was formed in France for the purpose of examining the practicability of building and operating a special purpose synthetic rubber plant in that country. The incorporation of the subsidiary company, Polymer Corporation (SAF), was obtained in January 1961 and an investment of \$1,293,228, being a subscription of 25% on 254,599 shares, was made. The equity capital of the subsidiary company is held 95% by Polymer Corporation Limited and 5% by the Banque de Paris et des Pays-Bas.

Since operations for the year ended December 31, 1959 were affected to a considerable extent by a strike of employees, the results achieved in the year ended December 31, 1958 have been used as a basis of comparison with the year under review in the summary of operations which follows:

	Year ended December 31	
	1960	1958
Sales .....	\$85,257,000	\$75,075,000
Other income .....	658,000	465,000
	<hr/> 85,915,000	<hr/> 75,540,000
Cost of goods sold .....	62,742,000	60,062,000
Selling, administrative and research expenses .....	3,672,000	3,033,000
	<hr/> 66,414,000	<hr/> 63,095,000
Net income before provision for income tax .....	19,501,000	12,445,000
Provision for income tax .....	9,650,000	6,068,000
Net income .....	<hr/> <u>\$ 9,851,000</u>	<hr/> <u>\$ 6,377,000</u>

In recent years the company has been expanding its sales activities into overseas markets. The effect is evidenced by the fact that, while in 1952 only 29% of sales were to overseas customers, by 1958 the percentage had increased to 64% and by 1960 to 67%.

Inventories at December 31, 1960 amounted to \$16,694,000, an increase of \$3,854,000 over those at the end of the preceding year. The inventory turnover in terms of net sales, however, was 5.10 in 1960 as compared with 4.66 in 1959.

Reference is made to the Fifth Report, 1961 of the Public Accounts Committee where, in paragraphs 94 to 99, inclusive, the Committee reported upon its examination into the affairs of Polymer Corporation Limited during the course of its hearings. In paragraph 99 the Committee recommended that the Auditor General be appointed

either the auditor or joint auditor of Polymer Corporation (SAF). In this connection, the Auditor General was notified on October 20, 1961 of his appointment as auditor of this French subsidiary company.

146. *The St. Lawrence Seaway Authority.* The Authority was established by the St. Lawrence Seaway Authority Act, c. 242, R.S., to construct, maintain and operate a deep waterway between Montreal and Lake Erie, either wholly in Canada or in conjunction with works to be undertaken by an appropriate authority in the United States. Agreement was reached whereby The St. Lawrence Seaway Authority would construct the necessary channels, canals and locks on the Canadian side of the St. Lawrence River and the Saint Lawrence Seaway Development Corporation would construct channels, canals and locks on the United States side. The reports of the Toll Committees of the two Seaway entities were approved by the governments of Canada and the United States on March 9, 1959. The Seaway opened for navigation on April 25, 1959.

On April 1, 1959 the Authority took over responsibility for the operation and maintenance of the Lachine, Cornwall, Welland and Sault Ste. Marie canals from the Department of Transport.

The Act provides for three members to constitute the Authority. The head office is at Ottawa with operating headquarters at Cornwall and district headquarters at St. Lambert, Cornwall and St. Catharines.

The Crown's equity at December 31, 1960 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport, April 1, 1959 (including Welland Ship Canal at a value of \$130,704,000) .....	\$ 181,816,000
Loans under section 25 of the Act .....	305,500,000
Interest on loans—matured and capitalized .....	19,427,000
	<hr/>
	506,743,000
Deduct: Deficit .....	12,177,000
	<hr/>
	\$ 494,566,000
	<hr/>

A major change in financial and accounting policy is reflected in the financial statements of the Authority during the year under review. It is the opinion of the Authority that basically the Seaway is expected (a) to pay its way so far as out-of-pocket operating costs are concerned, (b) to replace equipment and other assets with lives of less than 50 years, and (c) to pay interest on amounts borrowed and to amortize the principal over 50 years.

Accordingly the Authority has decided that depreciation should not be included in the operating costs of the Seaway, or otherwise provided, for the reason that the major assets, namely, land, dykes and channels, are non-depreciable while the majority of the other facilities such as locks and structures of a similar nature have a useful life of more than 50 years. In place of depreciation, operations are to be charged with amounts sufficient to provide for amortization of debt over the statutory period of 50 years, interest on debt and provision for replacement of assets, e.g., movable equipment, etc.,



with an estimated useful life of less than 50 years. This decision was implemented during the year under review by reversing depreciation amounting to \$4,062,000 set up in 1959, and by providing an amount of \$134,000 with respect to 1959 for replacement of movable equipment.

We understand that the new policy and the rates to be used in arriving at the annual provision for replacement are in conformity with those of the Saint Lawrence Seaway Development Corporation and were adopted by both Seaway entities with a view to providing a uniform calculation of costs.

The operating costs for 1960 were charged with \$12,791,000 for interest and \$92,000 for replacement of movable equipment. No provision was made for amortization of principal during the year because the financing plans call for payment of interest only, each year up to and including 1962, with the principal subject to amortization during the period from 1963 to 2009.

It will be noted that the Authority's new policy, as outlined above, makes no provision for the replacement of movable assets such as lock gates, etc., which have an estimated useful life of more than 50 years. Unless the Authority is to return to a policy of debt financing immediately the present indebtedness has been retired as required by the St. Lawrence Seaway Authority Act, provision must be made for the replacement of assets of the types mentioned, in the fifty-first and subsequent years. Because of the provision of section 16 of the Act that tolls provide a revenue sufficient to defray operating costs, and, as operating costs include provision for replacement of movable assets regardless of the duration of their useful life, the financial plans of the Authority should include provision for the continued operation of the Seaway facilities beyond the period of 50 years provided by the Act for retirement of its indebtedness.

Reference was made in our report dated March 30, 1961 to the Minister of Transport under section 87 of the Financial Administration Act to the indebtedness of the Authority to the Government of Canada, which was as follows at December 31, 1960:

Loans under section 25 of the Act .....	\$ 305,500,000
Interest on loans—matured and capitalized .....	19,427,000
Interest on capital debt, unpaid for the year 1960 .....	9,649,000
	<hr/>
	\$ 334,576,000
	<hr/>

Borrowings in 1960 amounted to \$20,000,000. During the year the Authority repaid from its 1959 net earnings \$5,000,000 in reduction of the interest matured and capitalized, and from its 1960 net earnings \$3,500,000 of the \$13,149,000 interest due for that year. The balance of \$9,649,000 was repaid on March 30, 1961, a further loan of \$9,500,000 having been obtained for that purpose.

Section 13 of the St. Lawrence Seaway Authority Act limits the borrowings of the Authority to \$335,000,000 and therefore the borrowing of \$9,500,000 to pay interest has in fact reduced the amount the Authority may borrow for construction purposes. Furthermore, as operations are charged with the amounts required to amortize the indebtedness of the Authority, the borrowing of funds to pay interest will result in a duplicate charge against operations, once by way of interest and again by way of repayment of principal (see also paragraph 63).

The following is a summary of the income and expense of the Canadian section of the deep waterway from Montreal to Lake Ontario and the Welland Ship Canal for the year ended December 31, 1960, with comparative figures for the period April 25 to December 31, 1959:

	January 1 to December 31, 1960	April 25 to December 31, 1959
<b>Income</b>		
Tolls .....	\$ 8,483,000	\$ 8,329,000
Other income .....	878,000	885,000
	<u>9,361,000</u>	<u>9,214,000</u>
<b>Expense</b>		
Operating expenses .....	2,321,000	1,642,000
Maintenance expenses .....	1,688,000	701,000
Operating and maintenance supervision .....	864,000	574,000
Administrative expenses .....	1,324,000	1,135,000
	<u>6,197,000</u>	<u>4,052,000</u>
<i>Deduct:</i> Portion of supervision and administrative expenses applicable to non-toll canals .....	288,000	99,000
	<u>5,909,000</u>	<u>3,953,000</u>
Net operating income before providing for interest and for replacement of movable equipment .....	<u>3,452,000</u>	<u>5,261,000</u>
Interest on loans from the Government of Canada .....	12,791,000	7,994,000
Provision for replacement of movable equipment .....	92,000	
Provision for depreciation .....		3,955,000
	<u>12,883,000</u>	<u>11,949,000</u>
Net loss .....	<u>\$ 9,431,000</u>	<u>\$ 6,688,000</u>

The \$9,431,000 net loss for the year ended December 31, 1960 compares with a net loss of \$2,745,000 for the period April 25 to December 31, 1959, after taking into account adjustments resulting from the discontinuance of depreciation accounting.

The extent by which revenues in 1960 fell short of meeting expenses in each of the two sections of the waterway operated by the Authority is shown in the following summary:

	Montreal- Lake Ontario	Welland Canal	Total
Tolls .....	\$ 7,156,000	\$ 1,327,000	\$ 8,483,000
Other income .....	132,000	746,000	878,000
	<u>7,288,000</u>	<u>2,073,000</u>	<u>9,361,000</u>
Expenses of operation, maintenance and administration .....	2,110,000	3,799,000	5,909,000
	<u>5,178,000</u>	<u>(1,726,000)</u>	<u>3,452,000</u>
Net operating profit (loss) .....	11,532,000	1,259,000	12,791,000
Interest on loans .....			
Net loss, before providing for replacement of movable equipment .....	<u>\$ 6,354,000</u>	<u>\$ 2,985,000</u>	<u>\$ 9,339,000</u>

On the Montreal-Lake Ontario section, the net operating profit of \$5,178,000 compares with a profit of \$5,894,000 for the previous period. The Welland Canal operations,

however, have resulted in a net operating loss for two successive years: \$1,726,000 in 1960 compared with \$633,000 for the preceding period.

Toll revenues for the two navigation seasons have been substantially less than had been anticipated by the Tolls Committee, as shown below:

	Montreal-Lake Ontario		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959 .....	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960 .....	10,789,000	7,156,000	2,215,000	1,327,000
	<u>\$20,090,000</u>	<u>\$14,261,000</u>	<u>\$ 4,275,000</u>	<u>\$ 2,551,000</u>

The following is a summary of the expense, income and capital expenditures of the non-toll canals administered by the Authority for the year ended December 31, 1960, with comparative figures for the period from April 1 to December 31, 1959:

	January 1 to December 31, 1960	April 1 to December 31, 1959
Expense		
Operating expenses .....	\$ 648,000	\$ 273,000
Maintenance expenses .....	360,000	152,000
Operating and maintenance supervision .....	224,000	146,000
Portion of Authority's supervision and administrative expenses applicable to non-toll canals .....	288,000	99,000
Employee benefits .....	101,000	
Expenditure on uncompleted work orders, and unabsorbed overhead .....	85,000	160,000
	<u>1,706,000</u>	<u>830,000</u>
Income from rentals, wharfage, etc. ....	441,000	313,000
Operating deficit .....	1,265,000	517,000
Capital expenditures .....	1,263,000	1,139,000
Operating deficit and capital expenditures (recovered from parlia- mentary appropriations) .....	<u>\$ 2,528,000</u>	<u>\$ 1,656,000</u>

In our report to the Authority last year, reference was made to accounting difficulties encountered during the first period of operating the Seaway and the corrective measures which the Authority, after consultation with the Audit Office, proposed to take through the employment of more senior accounting staff, improved division of responsibilities and the strengthening of the internal audit staff. In the course of our examination of the accounts for the year under review, we have found many improvements in the system of internal control resulting from the experience gained during the first period of operations and from the reorganization and recruiting program which had been partially completed by the year-end. An internal audit staff has now been set up to carry out a detailed examination of the Authority's books and records.

147. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, c. 10, 1956, for the



purpose of constructing the Northern Ontario section of the all-Canadian gas pipe line, and leasing (subject to approval by the Governor in Council) the said section, on completion, to Trans-Canada Pipe Line Limited, with an option to purchase.

The construction of the facilities has been financed primarily by loans made by the Government of Canada under section 6 of the Act and the Corporation's indebtedness in this respect was \$124 million as at December 31, 1960. An increase of \$500,000 during the year was the net result of additional loans amounting to \$4,000,000 and repayments of \$3,500,000. A maximum of \$130 million is placed by the Act on the amount which may be outstanding at any time.

The assets of the Corporation as at December 31, 1960 were recorded at \$130,782,000, including assets acquired or in the course of construction, \$119,361,000, and engineering, administrative and financing expenses, \$9,948,000, treated as part of the capital cost of the Northern Ontario section of the pipe line.

In October 1958, when the Northern Ontario section had been substantially completed and was ready for operation, the Corporation leased the section to Trans-Canada Pipe Line Limited for a term of 25 years, with an option to purchase the facilities, exercisable during the period of the lease. Under the terms of the lease all the expenses of operation, repairs and maintenance, taxes and other expenses of upkeep are borne by the lessee.

The Corporation's surplus account showed a balance of \$219,000 at the close of the financial year, compared to \$127,000 at the close of the previous year. The increase of \$92,000 was practically all accounted for by the difference between the \$4,392,000 of interest earned in accordance with the lease agreement with Trans-Canada Pipe Line Limited and the interest costs of \$4,300,000 on loans from the Government of Canada.

In accordance with a 1957 agreement, detailed accounting records have been maintained by Trans-Canada Pipe Lines Limited, which supervised all construction work under the overall engineering supervision of Defence Construction (1951) Limited. As expenditure vouchers were certified by Trans-Canada Pipe Lines and approved by Defence Construction (1951) Limited before payment by the Corporation, the latter needed to maintain controlling accounts only.

### Departmental Operating Activities

148. Extensive trading or servicing activities are operated by several departments, for example:

- Agricultural commodities stabilization activities (operated by the Agricultural Stabilization Board under the Department of Agriculture);
- Board of Grain Commissioners (under the Department of Agriculture);
- Canadian Government Elevators (operated by the Board of Grain Commissioners under the Department of Agriculture);
- National Film Board (under the Department of Citizenship and Immigration);
- Royal Canadian Mint (under the Department of Finance);
- Post Office activities;
- Public printing and stationery activities; and
- Airport operations (under the Department of Transport).

149. Reference has been made in paragraph 117 to the statutory direction contained in the Financial Administration Act regarding the annual financial statements to be prepared by Crown corporations. There is, however, no statutory direction regarding the preparation of financial statements in respect of trading or servicing activities operated by departments. Revenues arising from such activities are included in the Public Accounts as revenues of the departments concerned, while the expenditures that involve cash outlays in the year are recorded as charges against the parliamentary appropriations for those departments. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the Public Accounts. In the few instances where financial statements showing operating results from departmental operating activities are included, the costs shown include only the direct costs arising from cash outlays by the departments concerned and do not include non-cash charges for depreciation, interest on capital, services provided by other departments, etc.

150. *Agricultural commodities stabilization activities.* The Agricultural Stabilization Board established by the Agricultural Stabilization Act, c. 22, 1957-58, has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are provided for through annual parliamentary appropriations.

The transactions recorded in the Account during the year ended March 31, 1961, as shown in the Public Accounts (Volume II, page 1-44) are summarized as follows in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Trading losses		
Pork .....	\$29,236,000	\$27,862,000
Butter .....	2,442,000	3,409,000
Dry skimmed milk .....		8,108,000
Eggs .....		4,810,000
Other .....	659,000	697,000
	<u>32,337,000</u>	<u>44,886,000</u>
Stabilization and deficiency payments		
Milk .....	11,433,000	9,844,000
Sugar beets .....	2,716,000	2,657,000
Eggs .....	2,082,000	
Wool .....	1,253,000	1,219,000
Soya beans .....	867,000	1,217,000
Other .....	88,000	396,000
	<u>18,439,000</u>	<u>15,333,000</u>
Net operating loss .....	<u>\$50,776,000</u>	<u>\$60,219,000</u>

A charge of \$2,665,000 for the balance of the preceding year's net operating loss was made against the parliamentary appropriation provided to recoup the Account for the net operating loss as at March 31, 1961 (Vote 666).

The \$50,776,000 loss shown for 1960-61 does not include administrative expenses of \$408,000 charged to the appropriation for "Agricultural Stabilization Act Administration" (Vote 10) as shown in the Public Accounts (Volume II, page 1-13). In addition, certain accounting services with respect to the stabilization program are rendered by the Office of the Comptroller of the Treasury as a charge to the appropriation for the costs of that Office (Vote 108, 1960-61). Interest on the funds employed is not taken into consideration.

At March 31, 1961 inventories held by the Board amounted to \$90,383,000, comprising: pork, \$21,895,000; butter, \$66,963,000; and other commodities, \$1,525,000.

151. *Board of Grain Commissioners.* The Board of Grain Commissioners, established in 1912, operates under the authority of the Canada Grain Act, c. 25, R.S., as amended. The Board consists of three commissioners and has jurisdiction to inquire into any matter relating to: grading, weighing and storage of grain; unfair or discriminatory operation of any elevator; and failure or neglect to comply with provisions of the Act or regulations made thereunder.

A statement of the expenses incurred by the Board during the year ended March 31, 1961 is given in the Public Accounts (Volume II, page 1-49). The following is a comparative summary of the results of the Board's operations for the past two fiscal years:

	Year ended March 31	
	1961	1960
Expenditure		
Salaries, allowances, etc. ....	\$ 4,135,000	\$ 3,817,000
Rent .....	184,000	185,000
Travel .....	137,000	137,000
Printing and stationery .....	59,000	58,000
General expenses .....	223,000	206,000
	<u>4,738,000</u>	<u>4,403,000</u>
Revenue		
Inspections .....	1,616,000	1,674,000
Weighing .....	821,000	851,000
Registrations and cancellations .....	44,000	46,000
Licenses .....	29,000	29,000
Sundry revenue .....	6,000	5,000
	<u>2,516,000</u>	<u>2,605,000</u>
Excess of expenditure over revenue .....	\$ 2,222,000	\$ 1,798,000

The increase in salaries, allowances, etc., in 1961 over 1960 of \$318,000 is primarily due to a general increase in staff salary rates during the year. In addition, the salaries of the commissioners, amounting to \$42,000, were included for the first time in the



statement for the 1961 financial year. The increase of \$17,000 in general expenses is mainly accounted for by the installation of new equipment costing approximately \$40,000, partially offset by a reduction of \$27,000 in expenses of the Inspection Branch.

It will be noted from the above table that the \$2,222,000 excess of expenditure over revenue for the year under review is \$424,000, or 24%, greater than the excess for the previous year. This is the seventh consecutive year in which the excess of expenditure over revenue has exceeded one million dollars.

The fees charged for services provided by the Board have not been revised since 1949, while the costs of providing these services have increased substantially. As a result of a similar reference in last year's report commenting on the 1959-60 results, the Public Accounts Committee recommended in its Fifth Report, 1961 (paragraph 88) "that steps be taken to bring revenues and expenditures into balance".

152. *Canadian Government Elevators.* The Canadian Government Elevators have been operated since their inception in 1913 by the Board of Grain Commissioners, as currently provided for by section 166 of the Canada Grain Act, c. 25, R.S. There are five interior terminal elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton and Lethbridge, and a terminal elevator at Prince Rupert, together with a terminal elevator at Port Arthur which is under lease to a private company.

The Crown's equity in the Canadian Government Elevators at March 31, 1961 amounted to \$13,079,000, represented by fixed assets of \$12,183,000 acquired out of funds provided by parliamentary appropriations, together with a surplus of \$896,000. Funds provided for capital purposes in the year amounted to approximately \$25,000.

The following is a summary of the results of operations for the year ended March 31, 1961, as shown in the operating statement given in the Public Accounts (Volume II, page 1-55), in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Revenue		
Storage .....	\$ 1,256,000	\$ 1,196,000
Elevation .....	295,000	310,000
Cleaning .....	184,000	101,000
Drying .....	104,000	229,000
Other revenue .....	182,000	121,000
	<u>2,021,000</u>	<u>1,957,000</u>
Expenditure		
Salaries and wages .....	839,000	804,000
Maintenance .....	369,000	446,000
Grants in lieu of taxes .....	114,000	97,000
Power .....	93,000	93,000
Other expenditure .....	101,000	113,000
	<u>1,516,000</u>	<u>1,553,000</u>
Net profit .....	<u>\$ 505,000</u>	<u>\$ 404,000</u>

The net profit thus determined is without taking into consideration amortization of elevator construction costs, interest on funds employed, etc.

A loss of almost \$23,000 was suffered by the Lethbridge elevator during the year under review. This was the sixteenth consecutive year in which the revenues of this elevator have failed to cover even its direct costs of operation.

153. *National Film Board.* The National Film Board was established by the National Film Act, now c. 185, R.S., in order to promote production and distribution of films in the national interest. Section 18 of the Act provides for the establishment of the National Film Board Operating Account in the Consolidated Revenue Fund. The Account is credited with amounts transferred from appropriations made by Parliament for "Administration, Production and Distribution of Films and Other Visual Materials" (Vote 238, 1960-61) and also with income arising from the sale and rental of films and other visual materials.

The equity of the Government of Canada of \$4,386,000 comprises the balance of \$593,000 in the National Film Board Operating Account, which represents working capital, together with an investment of \$3,793,000 in equipment transferred to the Board at its inception or purchased out of funds provided through parliamentary appropriations, less disposals.

Under the provisions of the Act, the Board maintains an accounting system on the accrual basis in addition to the accounts maintained by the Comptroller of the Treasury on the cash basis. The financial statements for the year ended March 31, 1961, prepared from the Board's accounts and certified by the Auditor General, are included in the Public Accounts (Volume II, pages 21-4 to 6).

A summary of the Board's transactions for the year, compared with the preceding year, follows:

	Year ended March 31	
	1961	1960
Expense		
Production of films and other visual materials .....	\$ 2,702,000	\$ 2,441,000
Distribution of films .....	2,076,000	1,912,000
Administration and general services .....	831,000	782,000
Cost of production of films and other visual materials for government departments and others .....	1,211,000	1,158,000
Acquisition of equipment (net) .....	154,000	194,000
	<u>6,974,000</u>	<u>6,487,000</u>
Income		
Sales of film and other visual materials to government departments and others .....	1,416,000	1,359,000
Rentals and royalties .....	684,000	576,000
Miscellaneous .....	22,000	21,000
	<u>2,122,000</u>	<u>1,956,000</u>
Net expense .....	<u>\$ 4,852,000</u>	<u>\$ 4,531,000</u>

The expenses do not include any charges for amortization of building construction costs nor for office furniture and furnishings and maintenance services provided by the Department of Public Works; interest on funds employed; nor for certain accounting services provided by the Office of the Comptroller of the Treasury.

The recorded cost of equipment on hand at March 31, 1961 was \$3,793,000. The cost of additional equipment acquired during the year amounted to \$159,000, while the original cost of the equipment disposed of and written off totalled \$73,000, for which credits of \$5,000 were obtained. The items written off included over \$11,000 of equipment which could not be located on the taking of inventories over the past two years, notwithstanding several efforts made to locate the missing items.

154. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, c.315, R.S., which requires that facilities be provided for making coins of the currency of Canada and for melting, assaying and refining gold.

Revolving fund accounts are maintained for the recording of transactions in gold, silver and other metals acquired by the Mint for the purpose of its operations. The following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Inventories at beginning of year .....	\$11,503,000	\$11,380,000
Add: Purchases during year—		
Gold .....	88,667,000	88,311,000
Silver .....	8,433,000	6,441,000
Other metals .....	1,081,000	420,000
	<u>98,181,000</u>	<u>95,172,000</u>
Gold revaluation .....	244,000	(83,000)
	<u>109,928,000</u>	<u>106,469,000</u>
Deduct: Sales and other credits—		
Gold sales .....	86,315,000	90,384,000
Silver coin issues at face value .....	14,052,000	8,219,000
Other coin issues at face value .....	3,109,000	1,408,000
Silver bullion sales .....	521,000	25,000
Sundry credits .....	59,000	
	<u>104,056,000</u>	<u>100,036,000</u>
	5,872,000	6,433,000
Add: Transfers to Revenue—		
Gain on coinage operations .....	8,006,000	5,040,000
Gold refining gain .....	73,000	30,000
	<u>8,079,000</u>	<u>5,070,000</u>
Inventories at end of year .....	<u>\$13,951,000</u>	<u>\$11,503,000</u>

The revenue of \$8,079,000, together with other revenues of \$597,000, making a total of \$8,676,000 for the year ended March 31, 1961, is recorded in the Public Accounts as revenue of the Department of Finance. Offset against this were expenditures totalling



\$1,435,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operation and maintenance, \$1,412,000 (\$1,156,000 in 1959-60), and construction or acquisition of equipment, \$23,000 (\$67,000 in 1959-60).

The net result of these charges and credits was an excess of revenue over expenditure of \$7,241,000 compared with \$4,394,000 in 1959-60. Costs not reflected in the accounts include amortization of building and equipment costs, interest on funds employed, etc.

155. *Post Office activities.* The following is a summary of the Post Office transactions reported as departmental revenues and as charges against parliamentary appropriations in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1961, in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Gross postal revenue .....	\$ 201,952,000	\$ 193,593,000
Less: Expenses paid from revenue .....	28,358,000	26,031,000
Net postal revenue .....	173,594,000	167,562,000
Miscellaneous revenue .....	52,000	67,000
	<u>173,646,000</u>	<u>167,629,000</u>
Deduct: Expenditure from parliamentary appropriations—		
Operations .....	111,020,000	101,351,000
Transportation .....	62,200,000	59,803,000
Administration, financial services, etc. ....	5,152,000	4,638,000
	<u>178,372,000</u>	<u>165,792,000</u>
Excess of expenditure over revenue .....	\$ 4,726,000	\$ (1,837,000)

This recorded excess of expenditure over revenue does not, however, take into consideration charges for:

- (a) amortization of building construction costs (the cost of constructing new buildings is borne by appropriations for the Department of Public Works);
- (b) maintenance and operation of buildings (this cost is undertaken as a charge to appropriations for the Department of Public Works);
- (c) amortization of furniture and equipment cost (in lieu of charges presently included for purchases, against either Public Works or Post Office appropriations);
- (d) share of the Government's contributions towards employees' superannuation, etc.;

nor credits for mail franked by and sent to Members of Parliament and government departments.

156. *Public printing and stationery activities.* The Department of Public Printing and Stationery is charged, under the Public Printing and Stationery Act, c. 226, R.S., with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper, books and other articles of stationery required by the Senate, the House of Commons and the various departments. The Department is also responsible for the sale of all books or publications issued by order of either or both Houses of Parliament or by any department.

The basic operating expenses of the Department of Public Printing and Stationery are charged to the Queen's Printer's Advance, as authorized by section 37 of the Act. Credits are made to the Advance, for the value of the printing work executed for and charged (at "factory cost") to the various departments, etc., and for the value of stationery supplied and charged (at purchase cost) to the departments. The aggregate of the charges to the Advance, after deducting therefrom all amounts due to the Queen's Printer, is not permitted by the Act to exceed \$4,000,000. At March 31, 1961 the balance of the Advance was \$5,581,000, while accounts receivable totalled \$3,226,000, giving an effective balance of \$2,355,000.

A balance sheet and an operating statement with respect to the Queen's Printer's Advance were prepared for the year ended March 31, 1961 and appear in the Public Accounts (Volume II, pages 30-6, 7).

The results of the year's operations, as presented in the operating statement, are summarized as follows:

	Printing	Commercial printing, etc.	Stationery, office equipment, etc.	Total
Revenue .....	\$ 9,860,000	\$ 5,888,000	\$ 2,637,000	\$18,385,000
Expense .....	9,880,000	5,888,000	2,609,000	18,377,000
	(20,000)		28,000	8,000
Discount earned .....	5,000		8,000	13,000
Excess of revenue over expense .....	\$ (15,000)	—	\$ 36,000	\$ 21,000

The value of services and facilities, including light, power, telephone, heating, amortization of buildings and equipment, etc., provided free of charge by other government departments is not reflected in the balance sheet or in the statement of operations and reference to this limitation is made in a footnote to the balance sheet. We have suggested to the Queen's Printer that consideration be given to the inclusion of such charges next year, by means of memorandum entries.

In addition to the expenditure recorded through the Advance, expenses totalling \$3,484,000 were charged to eight different parliamentary appropriations, as follows:

Departmental administration .....	\$ 717,000
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel, and repairs to office equipment) .....	1,162,000
Distribution of official documents .....	459,000
Printing and binding official publications for sale and distribution to departments and the public .....	649,000
Printing of Canada Gazette .....	145,000
Printing and binding the annual statutes .....	38,000
Plant equipment and replacements .....	273,000
Reimbursement of Queen's Printer's advance account for the value of stores which have become obsolete, unserviceable, lost or destroyed .....	41,000
	<u>\$ 3,484,000</u>

Credits to Revenue, in addition to the \$21,000 excess of revenue over expenditure on printing operations and stationery transactions which was transferred from the Queen's Printer's Advance in May 1961, amounted to \$1,159,000, most of which resulted from sales of publications.

157. *Airport operations.* At the close of the year under review, the capital investment of the Department of Transport in airports totalled \$479,181,000, of which \$64,955,000 was added during 1960-61.

The following is a summary of the revenues for the year ended March 31, 1961, recorded as departmental revenues, in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Aircraft landing fees:		
Domestic .....	\$ 2,170,000	\$ 1,804,000
Trans-border .....	539,000	510,000
Trans-oceanic .....	2,093,000	2,322,000
Other .....	19,000	10,000
	<u>4,821,000</u>	<u>4,646,000</u>
Rentals:		
Hangar .....	222,000	211,000
Living quarters .....	403,000	398,000
Office, shop and garage space .....	774,000	612,000
Other .....	631,000	417,000
	<u>2,030,000</u>	<u>1,638,000</u>
Concessions:		
Gasoline and oil .....	1,371,000	1,150,000
Other .....	993,000	697,000
	<u>2,364,000</u>	<u>1,847,000</u>
Miscellaneous revenues .....	1,873,000	886,000
Total revenues .....	<u>\$11,088,000</u>	<u>\$ 9,017,000</u>

Charges to the parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Votes 444 and 653) totalled \$19,208,000 for the year, compared with \$16,678,000 for the preceding year.

The excess of the expenditure (excluding new construction) on airways and airports over the revenues received, as thus reflected in the Department of Transport section of the Public Accounts, was therefore \$8,120,000 for the year under review, compared with \$7,661,000 for the preceding year. This was without recording charges for amortization of airport construction costs, interest on funds employed or other costs (including portions of expenditure charged to general air services appropriations) which would have to be taken into consideration if it were desired to determine the actual net cost of operating the facilities.



158. In last year's report I expressed the view that in order that Parliament may gain a clear understanding of the true financial results of departmental operating activities, without necessarily disturbing the present basis of providing appropriations, consideration should be given to the inclusion in the Public Accounts of financial statements of the various activities designed to reflect the overall operating results in a clear, concise manner. Such operating statements could be adjusted to the accrual basis and would include charges (on a memorandum basis, in the case of non-cash charges) for amortization of building and equipment costs, interest and funds employed, services provided by other departments, etc. A reconciliation could be prepared between the operating results reflected by each such statement and the cash results indicated by the related credits to departmental revenues and charges to departmental appropriations. Balance sheets could also be prepared which would indicate the value of the assets employed by the several activities at the year-end. I stated that if statements of this type were produced, the Auditor General would be prepared to examine and certify them.

Paragraph 87 of the Fifth Report, 1961, of the Public Accounts Committee reads:

"The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport, were overall financial statements included in the Public Accounts without undue cost or staff increases."

I propose to follow up this matter with the departments concerned and to enquire regarding the plans that they may have for the preparation of financial statements for the year ended March 31, 1962 along the lines proposed.

### Special Statutory Audits and Examinations

159. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this report, the following special audits and examinations were made by the Audit Office during the year in accordance with directions contained in various statutes: Army Benevolent Fund, The Canada Council, the Custodian, Exchange Fund Account, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks and Yukon Territorial Government accounts.

160. *Army Benevolent Fund.* The accounts of this Fund were examined for the year ended March 31, 1961 pursuant to the requirement of section 11 of the Army Benevolent Fund Act, c. 10, R.S., and the relative report was addressed to the chairman and members of the Army Benevolent Fund Board constituted by the Act, with a copy being provided to the Minister of Veterans Affairs.

During the year under review, receipts amounted to \$221,000, consisting of \$209,000 for interest on the funds on deposit with the Receiver General of Canada and \$12,000 for interest on bonds. The disbursements totalled \$546,000 of which \$477,000 represented

grants to or on behalf of World War II veterans, and \$69,000 was for service and administrative expenses. The latter amount was after making deductions for a grant of \$18,000 provided for by an appropriation of the Department of Veterans Affairs and for a grant of \$25,000 from the Canadian Army Welfare Fund for managing the financial program of that fund.

After absorbing the excess of disbursements over receipts for the year in the amount of \$325,000, the balance at credit of the Fund as at March 31, 1961 was \$6,538,000. To the extent of \$6,277,000, this amount was represented by a balance on deposit with the Receiver General of Canada, the remainder being invested in Government of Canada bonds.

161. *The Canada Council.* The Canada Council was established by the Canada Council Act, c. 3, 1957, "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences". The Council's office is located in Ottawa. A report on the audit of the Council's accounts for the year ended March 31, 1961 was addressed to the Council and to the Prime Minister, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. With the exception of grants made to universities in respect of building construction projects, expenditures for the purposes of the Act are to be paid out of the return on investments held for the Fund. Permissible expenditures include: grants; scholarships; awards; exhibitions; performance and publication of works; exchanges with other countries; representation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the operations of the Endowment Fund for the year ended March 31, 1961, in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1961	1960
Surplus at April 1 .....	\$ 497,000	\$ 570,000
Income—interest and dividends .....	2,919,000	2,856,000
	<u>3,416,000</u>	<u>3,426,000</u>
Expenditure		
Grants .....	2,544,000	2,512,000
Special project—The Canada Council Train .....	33,000	29,000
Canadian National Commission for UNESCO .....	45,000	34,000
Administrative and other expenses .....	376,000	354,000
	<u>2,998,000</u>	<u>2,929,000</u>
Surplus at March 31 .....	\$ 418,000	\$ 497,000

The \$11,000 increase in the expenses in connection with the Canadian National Commission for UNESCO was mainly due to expenditures of approximately \$8,000 having been incurred in connection with the Second World Conference on Adult Education.

A University Capital Grants Fund of \$50 million was also established under the Act for the purpose of making grants to universities by way of capital assistance in respect of building construction projects intended for use in furthering the arts, humanities and social sciences. Grants may be paid out of the principal and accumulated income of this Fund.

The following is a summary of the transactions relating to the University Capital Grants Fund during the year ended March 31, 1961:

Balance at April 1, 1960 .....	\$34,598,000
Add:	
Interest earned on investments .....	\$ 1,871,000
Net profit on disposal of securities .....	1,241,000
	<hr/>
	3,112,000
	<hr/>
	37,710,000
Deduct:	
Authorized grants made under section 9 of the Act .....	3,368,000
	<hr/>
Balance at March 31, 1961 .....	<u>\$34,342,000</u>

The \$34,342,000 principal of the University Capital Grants Fund at March 31, 1961 included \$9,870,000 in respect of interest earned and profits realized since the inception of the Fund, and allocation of this sum to the provinces and universities is currently awaiting determination by the Council. In its Fifth Report, 1961 (paragraph 92) the Public Accounts Committee recommended that the Council "seek to conclude this matter without further delay".

162. *The Custodian.* Under the Trading with the Enemy (Transitional Powers) Act, c. 24, 1947, the Secretary of State is the Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" under or by virtue of the Revised Regulations respecting Trading with the Enemy (1943), which are set out in a schedule to the Act. The Under-Secretary of State acts as Deputy Custodian and the Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for his financial year ended December 31, 1960 was addressed to the Secretary of State.

The Custodian had a residue of property still under his control to a total of \$4,668,000 at December 31, 1960.

The Regulations referred to above permit the Custodian to charge "a fee for services rendered not exceeding 2% of the value of the property including the income therefrom" to meet his administrative expenses, and this has resulted in a surplus of



\$4,269,000 having accumulated in the Custodian's accounts from September 2, 1939 to December 31, 1960. The following is a comparative summary of the income and expense of the Custodian for his past two financial years:

	Year ended December 31	
	1960	1959
<b>Income</b>		
Fees on assets released from administration .....	\$ 3,000	\$ 13,000
Interest on investments and bank deposits .....	177,000	176,000
Other income .....	3,000	6,000
	<u>183,000</u>	<u>195,000</u>
<b>Expense</b>		
Salaries .....	123,000	124,000
Other expenses .....	23,000	33,000
	<u>146,000</u>	<u>157,000</u>
Surplus for year .....	\$ <u>37,000</u>	\$ <u>38,000</u>

A move to smaller and less expensive offices during the year ended December 31, 1960 resulted in a reduction of rental charges for the year by over \$9,000 and was the main reason for the reduction of the "other expenses" to \$23,000 from \$33,000 in the preceding year, as shown in the above table. This reduction was achieved in spite of a "non-productive" payment which arose as a result of the move having been made on January 18, 1960 while rental, to the extent of \$6,287, continued to be paid under the lease of the former premises, to April 30, 1960.

163. *Exchange Fund Account.* The Exchange Fund Account was first established by the Exchange Fund Act, c.60, 1935. It was continued by the Foreign Exchange Control Act, c. 53, 1946, and further continued by the Currency, Mint and Exchange Fund Act, c. 315, R.S. The purpose of the Exchange Fund Account, from its inception, has been "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1960 were examined pursuant to the requirement of section 27 of the Currency, Mint and Exchange Fund Act, and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament and, in accordance with that requirement, it is now certified that the transactions in connection with the Account for the year ended December 31, 1960 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account at the year-end.

A financial statement giving a summary of the transactions of the Account for the financial year ended December 31, 1960, and showing the composition of the balance at that date is given in the Public Accounts (Volume II, pages 11-20, 21).

The following is a summary of the transactions in the Account for the year ended December 31, 1960 compared with the transactions in the previous financial year:

	Year ended December 31	
	1960	1959
Balance at January 1 .....	\$ 1,969,513,000	\$ 2,010,125,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	25,513,000	18,625,000
Repayment of advances (net) .....	47,000,000	47,500,000
	<u>72,513,000</u>	<u>66,125,000</u>
	1,897,000,000	1,944,000,000
Add:		
Earnings on investments for the year (to be paid into Consolidated Revenue Fund) .....	32,536,000	25,513,000
Balance at December 31 .....	<u><u>\$ 1,929,536,000</u></u>	<u><u>\$ 1,969,513,000</u></u>
Represented by:		
Canadian dollars .....	\$ 382,000	\$ 25,000
United States securities .....	905,919,000	831,815,000
Gold .....	882,258,000	913,677,000
	<u>1,788,559,000</u>	<u>1,745,517,000</u>
Deficit .....	<u>140,977,000</u>	<u>223,996,000</u>
	<u><u>\$ 1,929,536,000</u></u>	<u><u>\$ 1,969,513,000</u></u>

The deficit of \$140,977,000 at December 31, 1960 comprises (a) net loss on dealings in gold and foreign currencies and securities and on revaluations of gold and foreign currencies since the establishment of the Exchange Fund Account in 1935, and (b) exchange loss arising from valuation of United States dollar and gold holdings at the exchange rate of \$0.99 21/32 Can. = \$1.00 U.S. at that date (see also paragraph 111).

164. *National Gallery of Canada.* The National Gallery of Canada was established under the National Gallery of Canada Act, c.33, 1913, which was superseded by the National Gallery Act, c.16, 1951 (2nd Session), now c.186, R.S. Among its objects and powers are the development, maintenance, care and management of the National Gallery at Ottawa, the acquisition of works of art and the promotion, through exhibition or otherwise, of the interests generally of art in Canada. A report on the audit of the Gallery's accounts for the year ended March 31, 1961 was addressed to the Minister of Citizenship and Immigration.

The operating expenses of the Gallery are largely met from annual parliamentary appropriations, with the remainder being met out of a special operating account to which are credited revenues received from sales, fees, donations or other sources. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose.

The following is a comparative summary of the expenditures for the past two fiscal years, excluding expenditures applicable to the National Industrial Design Council, supervision and control of which was transferred to the Department of Trade and Commerce during the year under review:

	Year ended March 31	
	1961	1960
Administration, operating and maintenance		
Salaries and wages .....	\$ 322,000	\$ 254,000
Professional and special services .....	162,000	91,000
Other .....	298,000	306,000
	<hr/> 782,000	<hr/> 651,000
Purchases of works of art .....	148,000	27,000
Outlays from trust funds .....	2,000	1,000
	<hr/> \$ 932,000	<hr/> \$ 679,000

The increases in salaries and wages and in professional and special services during the year were mainly due to increased staff and expanded protective services resulting from the Gallery's first full year of operation in the Lorne Building.

In a detailed report addressed to the Board of Trustees on the audit of the accounts for the year ended March 31, 1961, attention was drawn to certain weaknesses in the system of internal control. Most of the matters dealt with had been commented on in the previous year but had only been partially remedied. At the year-end a survey of administrative services was being undertaken for the Gallery by the Management Analysis Division of the Civil Service Commission.

165. *Public Printing and Stationery stores.* Section 34 of the Public Printing and Stationery Act, c.226, R.S., requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year under review, such tests were made as were considered necessary to establish that the controls exercised by the Department with respect to stores were operating satisfactorily. In addition, we participated in the annual physical stocktaking made by departmental personnel. A report on the examination was addressed to the Secretary of State.

The inventories of stationery, printing materials and supplies held by the Department at March 31, 1961 amounted to \$2,689,000, and compared with the inventories at the close of the previous year as follows:

	As at March 31	
	1961	1960
Stationery supplies .....	\$ 747,000	\$ 711,000
Typewriter and office machine parts .....	152,000	109,000
Miscellaneous items (on charge to the Stationery branch) .....	31,000	29,000
Work in process .....	467,000	333,000
Paper .....	397,000	470,000
Printing and maintenance supplies .....	488,000	513,000
Field unit stock .....	361,000	343,000
Miscellaneous items (on charge to the Printing branch) .....	46,000	63,000
	<hr/> \$ 2,689,000	<hr/> \$ 2,571,000



166. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Fund was established by the Queen Elizabeth II Canadian Research Fund Act, c.33, 1959. Its purposes are to assist individuals or organizations in undertaking or carrying on research into the diseases of children, and the causes, prevention and treatment of such diseases. The administration of the Fund is the responsibility of a board of trustees consisting of a chairman and six other trustees. The head office of the board is at Ottawa and the Act requires the National Research Council to provide, without charge, such secretarial and other administrative and technical services and facilities as may be required. A report on the audit of the Fund's accounts for the year ended March 31, 1961 was addressed to the board and to the Prime Minister as required by the Act.

The Act appropriated \$1,000,000 for the Fund and permits the board to accept gifts for its purposes. The balance at the credit of the Fund, which was \$988,000 at the beginning of the year under review, increased by \$70,000 to \$1,058,000 at March 31, 1961, as a result of the transactions summarized below:

Interest on investments .....	\$ 48,000
Net profit on sales of securities .....	72,000
	<hr/>
	120,000
Deduct:	
Awards approved during the year .....	\$ 59,000
Less: Cancellation of awards approved in preceding year .....	9,000
	<hr/>
	50,000
	<hr/>
Increase during the year .....	<u><u>\$ 70,000</u></u>

The board of trustees has approved of two categories of assistance, namely, Queen Elizabeth II Fellowships and Queen Elizabeth II Scientists. The first category includes fellowship awards in amounts ranging from \$3,500 to \$5,000 per annum to doctors of medicine or of "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the board of trustees with regard to this category provide for payments of \$10,000 per annum for each of the first three years and \$5,000 annually for the following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without recourse to the Fund. During the year under review the board of trustees approved its first appointment in this category—a scientist to establish a research unit in the field of pediatrics at a Canadian university. Provision for the \$45,000 which it is expected will ultimately be expended as a result of this appointment has been made in the Fund's accounts, and largely accounts for the \$59,000 shown for awards approved during the year.

167. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenues and expenditures accordingly form part of

the departmental revenues and expenditures and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, c.315, R.S., requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made during the year under review and a report thereon was made to the Deputy Minister of Finance.

The stocks of bullion and metals at cost, and coin at face value, held by the Mint at March 31, 1961 amounted to \$13,951,000, comprising: gold, \$7,061,000; silver, \$6,726,000; nickel, \$55,000; and bronze, \$109,000.

168. *Yukon Territorial Government accounts.* The Yukon Act, c. 53, 1952-53, as amended, makes provision for appointment of a chief executive officer to be known as the Commissioner of the Yukon Territory, to administer the government of the Territory under instructions from time to time given him by the Governor in Council or the Minister of Northern Affairs and National Resources. The Act also provides for a Council of the Yukon Territory, composed of seven elected members, which meets annually. Three members of the Council, appointed by the Commissioner upon the recommendation of the Council, constitute an Advisory Committee on Finance with which the Commissioner is required to consult in the preparation of the estimates of the expenditures, and of the appropriations required to defray the charges and expenses of the public service of the Territory for each fiscal year.

Section 16 of the Act enables the Commissioner in Council to make ordinances for the government of the Territory in the fields normally coming within provincial jurisdiction, subject to the limitation contained in section 17 of the Act that the powers granted shall not exceed those given to provincial legislatures in like matters by the British North America Act.

A report on the examination of the accounts of the Yukon Territorial Government for the fiscal year ended March 31, 1961 has been addressed to the Commissioner in Council, with a copy being forwarded to the Minister of Northern Affairs and National Resources, in accordance with established practice.

The following is a summary of the expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1961, compared with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1961	1960
Expenditure		
Education .....	\$ 722,000	\$ 632,000
Health and welfare .....	552,000	343,000
Roads, bridges and public works .....	312,000	328,000
Municipal and town administration .....	219,000	206,000
Capital projects .....	791,000	902,000
Other expenditure .....	394,000	260,000
	<hr/> 2,990,000	<hr/> 2,671,000

	Year ended March 31	
	1961	1960
Revenue		
Liquor profits .....	861,000	808,000
Tax revenue .....	592,000	535,000
Federal subsidies and grants .....	475,000	458,000
School attendance fees .....	218,000	194,000
Licence revenue .....	195,000	171,000
Other revenue .....	230,000	290,000
	<hr/> 2,571,000	<hr/> 2,456,000
Excess of expenditure over revenue .....	<hr/> \$ 419,000	<hr/> \$ 215,000

Loans payable to the Government of Canada at March 31, 1961 totalled \$2,190,000, a decrease of \$91,000 in the year, resulting from partial repayment of funds borrowed for the Whitehorse sewer and water project and the Whitehorse Regional Hospital.

### The Audit Office

It will be noted from Appendix 6 that 141 employees were authorized for the Audit Office for the fiscal year 1960-61 compared with 142 for the preceding year. Actual staff strength during 1960-61 averaged 134 compared with 137 during the preceding year.

The establishment approved for the fiscal year 1961-62 totalled 159, an increase of 18 over the previous year. Actual staff strength during the first seven months of this fiscal year has averaged 147 with the staff at October 31, 1961 totalling 152.

After estimating my staff establishment needs for 1962-63 I informed the Treasury Board that, in my opinion, at least 20 additional staff members are needed to bring the Audit Office staff up to the minimum strength necessary to carry out a basic external audit program within the framework of existing government organization. This has been approved by the Treasury Board, thereby bringing the establishment approved for the Audit Office up to 179, effective April 1, 1962.

\* \* \* \* \*

I would like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,  
*Auditor General of Canada.*

November 15, 1961.





## APPENDICES

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1961	Appendix 1
Statement of Assets and Liabilities as at March 31, 1961 .....	Appendix 2
Summary of Appropriations, Expenditure and Unexpended Balances, by Departments, for the year ended March 31, 1961 .....	Appendix 3
Summary of Revenue, by Main Classifications and Departments, for the year ended March 31, 1961 .....	Appendix 4
Summary of Expenditure, by Standard Objects, for the year ended March 31, 1961	Appendix 5
Summary of Employees authorized for the Public Service, by Departments, Crown Corporations, and Other Instrumentalities—March 1961 in comparison with March 1960 .....	Appendix 6

## THE GOVERNMENT

## STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparable figures for

## EXPENDITURE

	Fiscal year ended	
	March 31, 1961	March 31, 1960
Agriculture.....	\$ 264,915,215	\$ 227,420,395
Atomic Energy.....	38,892,905	30,114,125
Auditor General's Office.....	928,573	866,879
Board of Broadcast Governors.....	280,946	218,652
Canadian Broadcasting Corporation.....	66,766,203	63,945,994
Chief Electoral Officer.....	591,780	259,599
Citizenship and Immigration.....	61,049,383	54,916,725
Civil Service Commission.....	4,220,006	3,654,664
Defence Production.....	20,435,693	17,600,214
External Affairs.....	103,023,405	97,220,924
Finance—		
Public debt charges.....	797,602,265	783,462,191
Tax-sharing, subsidy and other payments to provinces.....	537,814,873	518,900,813
Other expenditure.....	124,609,972	117,792,124
	1,460,027,110	1,420,155,128
Fisheries.....	19,195,681	19,880,914
Forestry.....	10,060,199	9,890,589
Governor General and Lieutenant-Governors.....	436,926	421,083
Insurance.....	1,309,674	1,237,533
Justice.....	27,694,612	27,845,868
Labour.....	121,336,329	102,885,123
Legislation.....	8,506,699	7,669,237
Mines and Technical Surveys.....	59,120,367	54,432,381
National Defence—		
Royal Canadian Navy.....	245,478,753	255,835,374
Canadian Army.....	402,262,470	400,818,599
Royal Canadian Air Force.....	751,598,647	728,442,093
Defence research and development.....	41,925,038	39,183,489
Other expenditure.....	76,265,675	92,292,899
	1,517,630,683	1,516,572,454
National Film Board.....	4,866,930	4,555,417
National Gallery.....	920,828	666,814
National Health and Welfare—		
Family allowances.....	506,191,647	491,214,359
Other expenditure.....	380,955,343	325,488,431
	887,146,990	816,702,790
National Research Council.....	34,438,422	31,501,387
National Revenue.....	73,260,720	68,696,069
Northern Affairs and National Resources.....	74,295,902	74,346,187
Post Office.....	178,371,717	165,792,340
Privy Council.....	1,850,166	1,417,903
Public Archives and National Library.....	842,304	745,329
Public Printing and Stationery.....	3,483,938	3,466,734
Public Works.....	200,891,585	217,876,413
Royal Canadian Mounted Police.....	56,023,194	52,444,264
Secretary of State.....	4,877,799	4,655,356
Trade and Commerce.....	21,763,612	18,033,719
Transport.....	336,446,853	296,440,971
Veterans Affairs—		
Pensions.....	150,694,547	149,656,053
Other expenditure.....	141,603,150	138,648,826
	292,297,697	288,304,879
Total expenditure.....	5,958,100,946	5,702,861,053
Budgetary deficit.....	—340,421,092	—413,109,844
	5,617,679,854	5,289,751,209

H. R. BALLS,  
Comptroller of the Treasury.

K. W. TAYLOR,  
Deputy Minister of Finance.



# APPENDIX 1

(Auditor General's Report)

## OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1961

the preceding fiscal year)

### REVENUE

	Fiscal year ended	
	March 31, 1961	March 31, 1960
<b>Tax revenues—</b>		
Income tax—		
Personal <sup>(1)</sup> .....	\$1,711,159,573	\$1,566,643,704
Corporation <sup>(1)</sup> .....	1,276,628,380	1,142,879,702
On dividends, interest, etc., going abroad.....	88,173,822	73,353,360
Excise taxes—		
Sales tax <sup>(1)</sup> .....	720,617,274	732,658,330
Other.....	290,658,192	287,423,878
Customs duties.....	498,698,211	525,722,158
Excise duties.....	344,944,857	335,207,406
Estate tax <sup>(2)</sup> .....	84,879,372	88,430,705
Miscellaneous.....	16,905	20,695
	<b>5,015,776,586</b>	<b>4,752,339,938</b>
<b>Non-tax revenues—</b>		
Return on investments.....	283,769,277	239,653,687
Post Office—net postal revenue.....	173,593,541	167,562,354
Refunds of previous years' expenditure.....	40,544,154	40,630,026
Services and service fees.....	35,671,632	31,298,623
Proceeds from sales.....	23,980,752	21,891,546
Privileges, licences and permits.....	27,205,888	24,969,835
Bullion and coinage.....	8,445,677	5,429,778
Premium, discount and exchange.....	873,203	.....
Miscellaneous.....	7,819,144	5,975,422
	<b>601,903,268</b>	<b>537,411,271</b>

<sup>(1)</sup> Excluding tax credited to the old age security fund—

	1960-61	1959-60
Personal income tax...	229,400,000	185,550,000
Corporation income tax	103,500,000	91,336,000
Sales tax.....	270,231,478	270,000,055

<sup>(2)</sup> Includes Succession Duties.

Total revenue.....	5,617,679,854	5,289,751,209
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### Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,  
Auditor General.

**THE GOVERNMENT**  
**STATEMENT OF ASSETS AND**  
**(with comparable figures)**

**ASSETS**

	March 31, 1961	March 31, 1960	Net increase or decrease (—) during 1960-61
1. Current assets—			
(a) Cash, schedule A.....	\$ 486,759,770	\$ 565,436,461	\$ —78,676,691
(b) Departmental working capital advances and revolving funds, schedule B.....	171,082,579	196,010,004	—24,927,425
(c) Securities held for the securities investment account at amortized cost.....	101,453,744	77,862,926	23,590,818
(d) Other current assets, schedule C.....	25,051,644	22,837,203	2,214,441
	784,347,737	862,146,594	—77,798,857
2. Advances to the exchange fund account (value of investments from advances on basis of closing exchange rates: March 31, 1961, \$1,869,957,821; March 31, 1960, \$1,746,305,383).....	2,024,000,000	1,960,000,000	64,000,000
3. Sinking fund and other investments held for retirement of unmatured debt, schedule D.....	17,017,981	85,272,230	—68,254,249
4. Loans to, and investments in, Crown corporations, schedule E.....	3,627,733,196	3,446,661,546	181,071,650
5. Loans to national governments, schedule F.....	1,378,196,197	1,414,527,922	—36,331,725
6. Other loans and investments, schedule G—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	631,126,992	605,174,878	25,952,114
(b) Loans to provincial governments.....	84,827,019	90,396,788	—5,569,769
(c) Veterans land act advances (less reserve for conditional benefits).....	166,092,206	151,626,032	14,466,174
(d) Miscellaneous.....	140,059,590	87,273,714	52,785,876
	1,022,105,807	934,471,412	87,634,395
7. Securities held in trust, schedule H.....	30,042,201	30,611,723	—569,522
8. Deferred charges—			
(a) Unamortized portion of actuarial deficiencies—			
Canadian forces superannuation account.....	326,300,000	326,300,000	.....
Public service superannuation account.....	276,661,000	139,000,000	137,661,000
(b) Unamortized loan flotation costs, appendix No. 7.....	130,741,328	150,993,027	—20,251,699
	733,702,328	616,293,027	117,409,301
9. Suspense accounts, schedule I.....	136,101	33,300	102,801
10. Capital assets.....	1	1	.....
11. Inactive loans and investments, schedule J.....	94,824,381	93,539,317	1,285,064
TOTAL ASSETS.....	9,712,105,930	9,443,557,072	268,548,858
12. Less: Reserve for losses on realization of assets.....	—546,384,065	—546,384,065	.....
NET ASSETS.....	9,165,721,865	8,897,173,007	268,548,858
13. Net debt, represented by excess of liabilities over assets, schedule K.....	12,437,115,095	12,089,194,003	347,921,092
	21,602,836,960	20,986,367,010	616,469,950

The notes appearing on page 100 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,  
Comptroller of the Treasury.

K. W. TAYLOR,  
Deputy Minister of Finance.

(The schedules and the appendix referred to in the above Statement, and the page referred to in the footnote, are to be found in the Public Accounts, Volume I)

## APPENDIX 2

(Auditor General's Report)

### OF CANADA

#### LIABILITIES AS AT MARCH 31, 1961

as at March 31, 1960)

#### LIABILITIES

	March 31, 1961	March 31, 1960	Net increase or decrease (—) during 1960-61
14. Current and demand liabilities, schedule L—			
(a) Outstanding treasury cheques.....	\$ 251,740,839	\$ 228,768,468	\$ 22,972,371
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	221,396,476	245,099,099	-23,702,623
(c) Non-interest bearing notes payable to the international monetary fund, the international bank for reconstruc- tion and development, and the international develop- ment association.....	383,660,444	381,828,500	1,831,944
(d) Matured debt outstanding.....	31,872,131	20,067,997	11,804,134
(e) Interest due and outstanding.....	66,776,824	57,690,734	9,086,090
(f) Interest accrued.....	154,015,640	137,622,473	16,393,167
(g) Other current liabilities.....	38,098,891	27,979,624	10,119,267
	1,147,561,245	1,099,056,895	48,504,350
15. Deposit and trust accounts, schedule M.....	239,667,315	242,673,334	-3,006,019
16. Annuity, insurance and pension accounts, schedule N.....	3,955,509,445	3,565,375,649	390,133,796
17. Undisbursed balances of appropriations to special accounts, schedule O.....	104,492,701	96,619,964	7,872,737
18. Deferred credits, schedule P.....	79,073,348	83,961,190	-4,887,842
19. Suspense accounts, schedule Q.....	8,617,992	8,528,175	89,817
20. Unmatured debt, schedule R—			
(a) Bonds.....	14,132,914,914	13,765,151,803	367,763,111
(b) Treasury bills.....	1,935,000,000	2,125,000,000	-190,000,000
	16,067,914,914	15,890,151,803	177,763,111
<hr/>			
TOTAL LIABILITIES.....	21,602,836,960	20,986,367,010	616,469,950

#### Auditor General's Certificate

The above statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations that I have required, and I certify that the statement is in agreement with the accounts maintained by the Department of Finance, and is, in my opinion, correct, subject to the comments in my report to the House of Commons.

A. M. HENDERSON,  
Auditor General.



# APPENDIX 3

(Auditor General's Report)

## SUMMARY OF APPROPRIATIONS, EXPENDITURE AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1961

Section	Department	Appropriations	Expenditure	Unexpended Balances	
				Lapsed	Carried forward <sup>(1)</sup>
		\$	\$	\$	\$
1	Agriculture.....	293,742,764	264,915,215	28,827,549	
2	Atomic Energy.....	41,657,460	38,892,905	2,764,555	
3	Auditor General's Office.....	950,860	923,573	22,287	
4	Board of Broadcast Governors.....	298,420	280,946	17,474	
5	Canadian Broadcasting Corporation.....	71,739,400	66,766,203	4,973,197	
6	Office of the Chief Electoral Officer.....	603,423	591,780	11,643	
7	Citizenship and Immigration.....	62,654,917	61,049,383	1,605,534	
8	Civil Service Commission.....	4,276,281	4,220,006	56,275	
9	Defence Production.....	25,037,888	20,435,693	4,602,195	
10	External Affairs.....	105,732,092	103,023,405	2,708,687	
11	Finance.....	1,470,962,443	1,460,027,110	10,935,333	
12	Fisheries.....	21,291,399	19,195,681	2,095,718	
13	Forestry.....	10,663,184	10,060,199	602,985	
14	Governor General and Lieutenant-Governors.....	452,123	436,926	15,197	
15	Insurance.....	1,324,047	1,309,674	14,373	
16	Justice.....	8,850,638	8,643,471	207,167	
16	Office of the Commissioner of Penitentiaries.....	19,592,552	19,051,141	541,411	
17	Labour.....	158,872,670	121,336,329	8,399,717	29,136,624
18	Legislation.....	8,557,772	8,506,699	51,073	
19	Mines and Technical Surveys.....	64,766,935	59,120,367	5,646,568	
20	National Defence.....	1,605,924,933	1,517,530,583	88,394,350	
21	National Film Board.....	4,873,234	4,866,930	6,304	
22	National Gallery of Canada.....	1,023,725	920,828	102,897	
23	National Health and Welfare.....	891,527,961	887,146,990	4,380,971	
24	National Research Council.....	34,485,388	34,438,422	46,966	
25	National Revenue.....	75,982,651	73,260,720	2,721,931	
26	Northern Affairs and National Resources.....	81,826,821	74,295,902	7,530,919	
27	Post Office.....	181,875,872	178,371,717	3,504,155	
28	Privy Council.....	2,082,338	1,850,166	232,222	
29	Public Archives and National Library.....	870,362	842,304	28,058	
30	Public Printing and Stationery.....	3,539,048	3,483,938	55,110	
31	Public Works.....	216,063,041	200,891,585	15,171,456	
32	Royal Canadian Mounted Police.....	57,371,419	56,023,194	1,348,225	
33	Secretary of State.....	5,073,638	4,877,799	195,839	
34	Trade and Commerce.....	23,000,675	21,763,612	1,237,063	
35	Transport.....	344,526,546	328,949,809	15,576,737	
35	Canadian Maritime Commission.....	7,018,203	6,921,390	96,813	
35	National Harbours Board.....	2,580,299	575,654	2,004,645	
36	Veterans Affairs.....	300,634,877	292,297,697	8,337,180	
		6,212,308,349	5,958,100,946	225,070,779	29,136,624

<sup>(1)</sup> Available for expenditure in 1961-62.

H. R. BALLS,  
Comptroller of the Treasury.

### Auditor General's Certificate

The accounts relating to the expenditures which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

A. M. HENDERSON,  
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II.)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE YEAR ENDED MARCH 31, 1961

Section	Department	Tax revenue	Return on investments	Bullion and coinage	Premium, discount and exchange	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....		16,398				1,084,772	1,048,314	6,042,781	51,517	42,487	8,286,289
2	Atomic Energy.....		217,389									217,389
3	Auditor General's Office.....											6,352
5	Canadian Broadcasting Corporation.....								6,330	13	9	4,287,387
6	Office of the Chief Electoral Officer.....						40,100	297		4,246,990		800
7	Citizenship and Immigration.....		29,315				758,766	37,069	69,721		61,888	1,232,713
8	Civil Service Commission.....									275,954		717
9	Defence Production.....		3,980,323				11,834,406	18,015	218,015	43,285	7,833	16,266,552
10	External Affairs.....		1,507,369				787,505	16,934	10,577	84,911	21,834	2,429,130
11	Finance.....		189,333,504	8,445,677	873,203		187,505	46	263,638	3,776,885	401,517	203,094,470
12	Fisheries.....		284,118				111,150	147,485	50,283	34,897	45,728	673,661
13	Forestry.....						89,903	15,992	3,244		113,326	113,326
15	Insurance.....	16,414							650,845		58	667,317
16	Justice.....						7,762	4,958	11,505	739	393,845	418,809
16	Office of the Commissioner of Penitentiaries.....		1,585				53,041	1,127,050	18,070		3,776	1,203,522
17	Labour.....		2,415					1,843	2,582	79,586	752,893	830,319
18	Legislation.....						99,241		2,800	8	29,003	131,082
19	Mines and Technical Surveys.....		305,430				21,888	222,639	5,120	25,076	748,072	1,328,225
20	National Defence.....		460,893				1,596,007	1,128,466	1,592,710	21,836,801	1,207,882	27,822,559
21	National Film Board.....									24,448		24,448
22	National Gallery of Canada.....											2,782
23	National Health and Welfare.....		332						3,117,486	583,519	43,490	4,189,430
24	National Research Council.....		2,285				210,934	51,070	312,969	23,913	646	24,891
25	National Revenue.....	5,015,759,681	198,204				4,255,225	396,200	428,342	330,688	136,070	5,745,220
26	Northern Affairs and National Resources.....							24,389	12,522	15,206		173,645,658
27	Post Office.....	491				173,593,541			158	5,009		5,167
28	Privy Council.....								3,704			4,084
29	Public Archives and National Gallery.....		157					1,111,511		19,092	28,582	1,180,814
30	Public Printing and Stationery.....		21,629				1,499,725	5,569,950	453,866	1,723,775	832,519	69,655,713
31	Public Works.....		59,575,878				678,756	392,891	10,376,643	158,550	104,676	11,724,225
32	Royal Canadian Mounted Police.....		12,709				2,391,571		334,817	1	161	2,726,550
33	Secretary of State.....						21,673	2,123	1,976,634	11,377	938,829	12,186,003
34	Trade and Commerce.....		9,235,367				13,255,363	404,511	9,737,020	5,470,394	100,908	42,246,921
35	Transport.....		13,269,725							1,698,928	232,733	7,303,312
36	Veterans Affairs.....		5,314,252				42,361	15,038				
		5,015,776,586	283,769,277	8,445,677	873,203	173,593,541	27,205,888	23,980,752	35,671,632	40,544,154	7,819,144	5,617,679,854

H. R. BALIS,  
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues which are included in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, made in accordance with the provisions of the Financial Administration Act, I certify that, in my opinion, the statement is correct.

A. M. HENDERSON,  
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

# APPENDIX 5

(Auditor General's Report)

## SUMMARY OF EXPENDITURE BY STANDARD OBJECTS

### FOR THE YEAR ENDED MARCH 31, 1961

(with comparable figures for the preceding fiscal year)

(in millions of dollars)

	1960-61	1959-60	Increase or decrease (-)
Civil salaries and wages.....	\$782.2	\$710.4	\$71.8
Civilian allowances.....	13.9	14.1	— .2
Pay and allowances, defence forces and R.C.M. Police.....	523.2	498.1	25.1
Professional and special services.....	83.9	89.0	— 5.1
Travelling and removal expenses.....	62.1	62.1	.0
Freight, express and cartage.....	11.6	12.6	— 1.0
Postage.....	6.0	5.7	.3
Telephones, telegrams and other communication services.....	18.8	17.5	1.3
Publication of departmental reports and other material.....	8.6	8.6	.0
Exhibits, advertising, films, broadcasting and displays.....	12.1	11.8	.3
Office stationery, supplies, equipment and furnishings.....	21.8	22.2	— .4
Materials and supplies.....	163.6	162.5	1.1
Buildings and works, including land—			
Construction or acquisition.....	312.2	344.6	—32.4
Repairs and upkeep.....	56.5	49.8	6.7
Rentals.....	15.8	15.9	— .1
Equipment—			
Construction or acquisition.....	325.0	335.9	—10.9
Repairs and upkeep.....	154.5	162.5	— 8.0
Rentals.....	5.9	5.1	.8
Municipal or public utility services.....	53.5	48.5	5.0
Contributions, grants, subsidies, etc. not included elsewhere.....	527.6	479.6	48.0
Pensions, superannuation and other benefits.....	113.1	109.7	3.4
All other expenditures (other than special categories).....	70.0	66.9	3.1
Interest on public debt, etc.....	797.6	783.5	14.1
Subsidies and special payments to the Provinces.....	537.8	518.9	18.9
Family allowances payments.....	506.2	491.2	15.0
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	102.7	90.8	11.9
Veterans' disability pensions, etc.....	150.7	149.7	1.0
Other payments to veterans and dependents.....	71.2	70.2	1.0
Government's contribution to the Unemployment Insurance Fund.....	55.1	45.7	9.4
Hospital insurance and general health grants.....	237.4	196.6	40.8
Trans-Canada Highway contributions.....	48.7	53.3	— 4.6
Movement of mail by land, air and water.....	61.7	59.3	2.4
Deficits—Government-owned enterprises.....	78.3	52.1	26.2
	\$5,989.3	\$5,744.4	\$244.9
Less: Expenditure recovered.....	31.2	41.5	—10.3
Net Total Expenditure.....	\$5,958.1	\$5,702.9	\$255.2



## APPENDIX 6

(Auditor General's Report)

### SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE BY DEPARTMENTS, CROWN CORPORATIONS, AND OTHER INSTRUMENTALITIES

March 1961 in comparison with March 1960

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Note 2)—			
Agriculture—			
Administration*.....	398	373	25
Research*.....	4,694	4,629	65
Production and marketing*.....	3,332	3,260	72
Special*.....	1,300	975	325
	9,724	9,237	487
Atomic Energy Control Board.....	8	8	—
Auditor General's Office.....	141	142	(1)
Board of Broadcast Governors.....	31	21	10
Chief Electoral Officer.....	16	16	—
Citizenship and Immigration—			
Administration.....	176	172	4
Citizenship.....	211	205	6
Immigration*.....	2,138	2,145	(7)
Indian Affairs*.....	2,347	2,180	167
	4,872	4,702	170
Civil Service Commission*.....	692	697	(5)
Defence Production.....	1,581	1,509	72
External Affairs—			
Administration.....	786	782	4
Representation abroad.....	1,216	1,176	40
International Joint Commission.....	12	15	(3)
Other international commissions.....	16	16	—
	2,030	1,989	41
Finance—			
Departmental administration.....	479	504	(25)
Comptroller of the Treasury*.....	4,501	4,403	98
Administration of various Acts.....	429	389	40
Tariff Board.....	28	27	1
	5,437	5,323	114
Fisheries—			
Administration and general services*.....	199	195	4
Field services*.....	1,438	1,410	28
Special*.....	830	828	2
	2,467	2,433	34
Governor General and Lieutenant-Governors*.....	15	14	1
Insurance*.....	110	110	—
Justice—			
Department.....	402	372	30
Penitentiaries*.....	2,630	2,411	219
	3,032	2,783	249

\* Includes seasonal, part-time and/or sessional employees.

## SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Continued)			
Labour—			
Department*.....	626	642	(16)
Unemployment Insurance Commission.....	8,632	8,423	209
	9,258	9,065	193
Legislation—			
Senate*.....	168	167	1
House of Commons*.....	727	709	18
Library of Parliament*.....	55	55	—
	950	931	19
Mines and Technical Surveys—			
Administration*.....	231	214	17
Surveys and Mapping Branch*.....	2,071	1,990	81
Geological Survey*.....	672	614	58
Mines Branch*.....	674	653	21
International Boundary Commission*.....	29	29	—
Dominion Coal Board.....	20	21	(1)
Other*.....	310	279	31
	4,007	3,800	207
National Defence (Civilian Staffs)—			
Departmental administration.....	670	693	(23)
Inspection services.....	1,409	1,563	(154)
Royal Canadian Navy.....	11,973	11,973	—
Canadian Army.....	18,417	19,334	(917)
Royal Canadian Air Force.....	14,022	14,442	(420)
Defence research and development.....	2,926	2,926	—
	49,417	50,931	(1,514)
National Gallery*.....	75	68	7
National Health and Welfare—			
Departmental administration.....	360	364	(4)
National Health Branch*.....	3,741	3,672	69
Welfare Branch.....	906	907	(1)
General.....	159	199	(40)
	5,166	5,142	24
National Research Council.....	2,590	2,511	79
National Revenue—			
Customs and Excise Divisions*.....	8,453	8,552	(99)
Taxation Division*.....	8,034	8,126	(92)
Tax Appeal Board.....	17	17	—
	16,504	16,695	(191)
Northern Affairs and National Resources—			
Departmental administration*.....	197	184	13
National Parks Branch*.....	147	133	14
National parks and historic sites*.....	2,323	2,268	55
Water Resources Branch*.....	248	238	10
Northern Administration Branch*.....	666	592	74
Yukon Territory*.....	57	54	3
Northwest Territories and other field services*.....	464	410	54
Forestry Branch*.....	747	683	64
National Museum of Canada*.....	110	105	5
Canadian Government Travel Bureau*.....	98	92	6
	5,057	4,759	298
Post Office—			
Departmental administration.....	339	329	10
Operations*.....	25,959	25,179	780
Financial services.....	414	415	(1)
	26,712	25,923	789

## SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
DEPARTMENTS (Continued)			
Privy Council Office.....	169	125	44
Public Archives and National Library—			
Public Archives.....	115	111	4
National Library.....	43	41	2
	158	152	6
Public Printing and Stationery*.....	453	458	(5)
Public Works—			
General administration*.....	1,703	1,648	55
Maintenance and operation of public buildings*.....	6,894	6,862	32
Harbours and rivers engineering service*.....	617	609	8
Development engineering service*.....	149	138	11
	9,363	9,257	106
Royal Canadian Mounted Police (Civilian Staff).....	1,158	1,118	40
Secretary of State—			
Departmental administration.....	61	60	1
Companies Division.....	25	24	1
Trade Marks Division.....	52	52	—
Bureau for Translations.....	320	315	5
Patent and Copyright Office.....	327	322	5
	785	773	12
Trade and Commerce—			
General administration*.....	1,456	1,420	36
Dominion Bureau of Statistics*.....	1,741	1,697	44
Board of Grain Commissioners*.....	1,132	1,134	(2)
National Energy Board.....	57	—	57
Special.....	59	47	12
	4,445	4,298	147
Transport—			
Departmental administration.....	578	565	13
Canal services*.....	481	600	(119)
Marine services*.....	3,688	3,567	121
Railway and Steamship services.....	7	7	—
Air services*.....	9,325	8,663	662
Air Transport Board.....	77	64	13
Canadian Maritime Commission.....	24	24	—
Board of Transport Commissioners.....	170	171	(1)
	14,350	13,661	689
Veterans Affairs—			
Department*.....	13,148	13,153	(5)
Canadian Pension Commission.....	404	419	(15)
Soldier Settlement and Veterans Land Act.....	984	993	(9)
	14,536	14,565	(29)
Total, Departments.....	195,309	193,216	2,093
CROWN CORPORATIONS (Note 3)—			
Atomic Energy of Canada Limited—			
Professional.....	535	518	17
Non-professional.....	1,099	997	102
Hourly rate.....	1,214	1,197	17
	2,848	2,712	136
Canadian Arsenals Limited—			
Salaried.....	1,076	1,166	(90)
Hourly rate—productive.....	916	1,116	(200)
Hourly rate—non-productive.....	787	896	(109)
	2,779	3,178	(399)



## SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—Continued

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
CROWN CORPORATIONS (Continued)			
Canadian Broadcasting Corporation—			
Administrative (including field offices).....	1,423	1,373	50
Programming and production.....	3,493	3,315	178
Engineering.....	2,040	1,937	103
Other.....	548	528	20
	7,604	7,153	351
Canadian Commercial Corporation.....	60	54	6
Canadian National Railways.....	96,621	103,237	(6,616)
Canadian Overseas Telecommunication Corporation—			
Administrative.....	85	82	3
Operating.....	304	293	11
	389	375	14
Canadian Patents and Development Limited.....	4	1	3
Central Mortgage and Housing Corporation—			
Regular.....	1,854	1,893	(39)
Contract and casual.....	37	39	(2)
	1,891	1,932	(41)
Cornwall International Bridge Company Limited.....	15	14	1
Crown Assets Disposal Corporation.....	106	114	(8)
Defence Construction (1951) Limited.....	392	420	(28)
Eldorado Aviation Limited.....	43	47	(4)
Eldorado Mining and Refining Limited—			
Administrative.....	197	253	(56)
Operating.....	756	1,059	(303)
Research.....	55	48	7
	1,008	1,360	(352)
Export Credits Insurance Corporation.....	32	30	2
Farm Credit Corporation.....	308	183	125
The National Battlefields Commission.....	23	23	—
National Capital Commission—			
Administrative, Engineering, etc.....	85	76	9
Prevailing rate—seasonal.....	290	285	5
Construction employees for specific works.....	178	125	53
	553	486	67
National Harbours Board—			
Salaried—Permanent, seasonal and temporary.....	862	827	35
Prevailing rate—Permanent, seasonal and temporary.....	1,407	1,442	(35)
	2,269	2,269	—
Northern Canada Power Commission—			
Administrative.....	36	41	(5)
Operating.....	167	100	67
	203	141	62
Northern Ontario Pipe Line Crown Corporation.....	3	4	(1)
Northern Transportation Company Limited.....	42	45	(3)
Polymer Corporation Limited—			
Salaried.....	932	906	26
Hourly rate.....	1,696	1,748	(52)
	2,628	2,654	(26)

SUMMARY OF EMPLOYEES AUTHORIZED FOR THE PUBLIC SERVICE—*Concluded*

	Employees Authorized		Increase (Decrease)
	March 1961	March 1960	
CROWN CORPORATIONS (Continued)			
The St. Lawrence Seaway Authority—			
Administrative and Engineering.....	297	315	(18)
Operations.....	645	677	(32)
Maintenance.....	654	610	44
	1,596	1,602	(6)
Trans-Canada Air Lines—			
Flying personnel.....	1,549	1,617	(68)
Other personnel.....	10,047	9,285	762
	11,596	10,902	694
Total, Crown Corporations.....	132,913	138,936	(6,023)
OTHER INSTRUMENTALITIES (Note 3)—			
Bank of Canada.....	813	812	1
Canada Council.....	32	29	3
The Canadian Wheat Board.....	687	673	14
The Custodian.....	17	23	(6)
Industrial Development Bank.....	279	209	70
National Film Board.....	680	678	2
Total, Other Instrumentalities.....	2,508	2,424	84
TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES.....	330,730	334,576	(3,846)

## NOTES:

- (1) The boards, commissions, etc., shown separately under departmental headings, are those for which outlines are included in the publication "Organization of the Government of Canada".
- (2) The numbers of employees shown for the departments are the approved Establishment figures appearing in the Details of the Estimates for 1960-61 and 1959-60. This does not take into account changes that may have been approved by Treasury Board during the year. Although seasonal, part-time and/or sessional employees are included, casual employees are not included (the numbers of man-years involved not being given in the Details of the Estimates in support of amounts provided).
- (3) The numbers of employees shown for Crown corporations and other instrumentalities are the "actual strength" figures. In the case of three Crown corporations, the following information is available with respect to establishments authorized by their executive boards:

	March 1961	March 1960	Increase (Decrease)
Canadian Broadcasting Corporation.....	7,822	7,415	407
National Capital Commission—			
Administrative, Engineering, etc.....	90	81	9
Prevailing rate—seasonal.....	449	449	—
Polymer Corporation Limited.....	2,666	2,674	(8)













